



City of Ekurhuleni Metropolitan Municipality
Annual Financial Statements
for the year ended 30 June 2020

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity

City

Legislation governing the entity's operations

Municipal Finance Management Act (Act No. 56 of 2003)

Mayoral Committee

Executive Mayor

Clr M Masina

Speaker

Clr P Khumalo

Chief Whip

Chief Whip: Clr J Dlabathi

Members of Mayoral Committee

MMC: Finance, ICT and Economic Development: Clr D Xhakaza

MMC: Health & Social Development : Clr N Nkozi

MMC: Human Settlement: Clr L Mpya

MMC: Environmental and Waste Management Services: Clr K Mabaso

MMC: City Planning: Clr N Shongwe

MMC: Corporate and Shared Services: Clr D Mlambo

MMC: Water, Sanitation and Energy: Clr T Nketle

MMC: Community Safety: Clr F Mmoko

MMC: Infrastructure Services: Clr M Madihlaba

MMC: Transport Planning: Clr P Nkunjana

Grading of local authority

The City is a category A grade 6 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers act, 1998.

City Manager

Dr. I Mashazi

011 999 0760

imogen.mashazi@ekurhuleni.gov.za

Group Chief Financial Officer (GCFO)

Mr. K Lerutla

011 999 1310

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Registered office

Corner of Rose and Cross Streets

Germiston

1400

Business address

Corner of Rose and Cross Streets

Germiston

1400

Postal address

Private Bag X69

Germiston

1400

Primary banker

Nedbank

Auditors

Auditor-General of South Africa

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the City as at 30 June 2020 and the results of its operations and cash flows for the year then ended.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

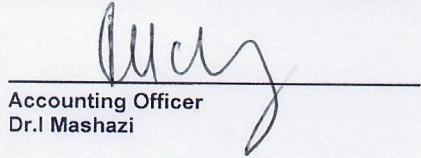
The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the City and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the City and all employees are required to maintain the highest ethical standards in ensuring the City's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the City is on identifying, assessing, managing and monitoring all known forms of risk across the City. While operating risk cannot be fully eliminated, the City endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the City's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the City has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is responsible for the financial affairs of the City, and she is assisted by the City's Senior Management team.

The annual financial statements set out on pages 4 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:


Accounting Officer
Dr. I Mashazi


Group Chief Financial Officer
Mr. K Lerutla

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated
Assets			
Current Assets			
Inventories	10	1,282,574,238	1,362,355,865
Other investments	8	1,857,475,861	174,554,132
Receivables from non exchange transactions	13	5,113,059	567,792,348
Receivables from exchange transactions	11&14	6,143,392,185	5,455,699,832
Statutory receivables	12	863,950,242	-
Cash and cash equivalents	15	1,644,224,892	3,430,881,905
		11,796,730,477	10,991,284,082
Non-Current Assets			
Investment property	3	530,824,142	502,247,151
Property, plant and equipment	4	57,147,985,682	55,126,113,172
Intangible assets	5	1,220,131,682	990,116,508
Heritage assets	6	66,085,061	69,001,911
Investments in controlled entities	7	106	106
Other investments	8	616,146,743	1,915,108,684
Long term receivables	9	3,345,200	3,329,215
		59,584,518,616	58,605,916,747
Total Assets		71,381,249,093	69,597,200,829
Liabilities			
Current Liabilities			
Short term portion of long term liabilities	16	2,338,021,378	557,145,611
Trade and other payables from exchange transactions	19	8,546,868,462	7,511,193,794
Deposits	20	935,100,451	916,990,548
Unspent conditional grants and receipts	21	492,860,020	959,851,222
Provisions	18	576,744,106	572,902,650
		12,889,594,417	10,518,083,825
Non-Current Liabilities			
Long term liabilities	16	7,624,921,670	8,124,203,045
Retirement benefit obligation	17	2,130,088,581	2,058,871,581
Provisions	18	979,441,554	885,299,632
		10,734,451,805	11,068,374,258
Total Liabilities		23,624,046,222	21,586,458,083
Net Assets			
Accumulated surplus		47,757,202,871	48,010,742,746
		47,757,202,871	48,010,742,746

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated
Revenue			
Revenue from exchange transactions			
Service charges	22&24	23,096,231,665	21,153,924,617
Rental of facilities and equipment	25	84,099,157	76,002,723
Interest earned on outstanding debtors	22	354,577,088	393,388,972
Income from agency services	2256	246,003,581	305,156,458
Licences and permits	22	32,915,237	43,989,029
Other income	28	154,054,203	235,914,589
Interest revenue	27	306,732,178	393,246,152
Gains on sale of assets	22	18,039,993	-
Total revenue from exchange transactions		24,292,653,102	22,601,622,540
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	5,668,546,859	5,395,430,732
Property rates - penalties and collection charges	23	83,401,449	83,532,438
Transfer revenue			
Government grants & subsidies	26	8,402,560,341	7,724,271,767
Public contributions and donations		143,384,792	29,628,665
Fines	22	720,757,605	820,850,338
Total revenue from non-exchange transactions		15,018,651,046	14,053,713,940
Total revenue	22	39,311,304,148	36,655,336,480
Expenditure			
Employee related costs	29	(8,769,926,678)	(8,280,628,317)
Remuneration of councillors	30	(141,224,613)	(137,935,967)
Depreciation and amortisation	31	(2,613,405,797)	(2,345,909,609)
Impairment and derecognition loss	32	(43,793,819)	(93,738,466)
Finance costs	33	(1,187,412,121)	(891,518,673)
Debt impairment	34	(3,702,413,924)	(4,136,551,991)
Collection costs		(114,868,883)	(127,898,248)
Bulk purchases	35	(15,932,324,318)	(14,021,782,715)
Contracted services	37	(2,527,617,945)	(2,469,896,901)
Grants and subsidies paid	38	(1,490,674,297)	(1,808,075,875)
Loss on disposal of capital assets		-	(14,596,043)
General expenses	39	(3,041,181,627)	(3,280,959,279)
Total expenditure		(39,564,844,022)	(37,609,492,084)
Deficit for the year		(253,539,874)	(954,155,604)

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	49,015,487,733	49,015,487,733
Correction of errors	(50,589,385)	(50,589,385)
Restated* Balance at 01 July 2018	48,964,898,350	48,964,898,350
Changes in net assets		
Deficit for the year	(954,155,604)	(954,155,604)
Total changes	<u>(954,155,604)</u>	<u>(954,155,604)</u>
Balance at 01 July 2019	48,010,742,745	48,010,742,745
Changes in net assets		
Surplus for the year	(253,539,874)	(253,539,874)
Total changes	<u>(253,539,874)</u>	<u>(253,539,874)</u>
Balance at 30 June 2020	47,757,202,871	47,757,202,871

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019		
		Restated			
Cash flows from operating activities					
Receipts on:					
Property rates		3,508,234,590	3,902,329,664		
Income from rendering of services		21,304,416,193	19,193,651,433		
Grants - operational		5,934,834,599	6,039,892,885		
Grants - capital		2,000,734,540	2,067,209,453		
Interest income		306,732,178	786,635,124		
Other receipts		1,079,943,623	1,554,217,697		
		<u>34,134,895,723</u>	<u>33,543,936,256</u>		
Payments to:					
Employees		(9,129,815,589)	(8,428,033,593)		
Suppliers		(20,385,667,595)	(19,787,359,316)		
Finance costs		(897,530,823)	(616,152,368)		
Other payments		(1,582,328,573)	(1,588,092,553)		
		<u>(31,995,342,580)</u>	<u>(30,419,637,830)</u>		
Net cash flows from operating activities	40	<u>2,139,553,143</u>	<u>3,124,298,426</u>		
Cash flows from investing activities					
Purchase of property, plant and equipment (PPE)	4	(4,507,730,216)	(5,713,632,916)		
Purchase of investment property	3	(38,829,032)	(13,563,059)		
Purchase of intangible assets	5	(277,269,527)	(258,397,644)		
Decrease in investments		(383,959,789)	83,123,862		
Increase in long term receivables		(15,985)	(11,391)		
Net cash flows from investing activities		<u>(5,207,804,548)</u>	<u>(5,902,481,148)</u>		
Cash flows from financing activities					
Long-term liabilities raised		1,650,000,000	3,000,000,000		
Repayment of long term liabilities		(368,405,608)	(318,729,157)		
Net cash flows from financing activities		<u>1,281,594,392</u>	<u>2,681,270,843</u>		
Net decrease in cash and cash equivalents		<u>(1,786,657,013)</u>	<u>(96,911,879)</u>		
Cash and cash equivalents at the beginning of the year		3,430,881,905	3,527,793,784		
Cash and cash equivalents at the end of the year	15	<u>1,644,224,892</u>	<u>3,430,881,905</u>		

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	24,549,978,488	(872,864,297)	23,677,114,191	23,096,231,665	(580,882,526)	58
Rental of facilities and equipment	89,450,572	(8,606,344)	80,844,228	84,099,157	3,254,929	58
Interest earned on outstanding debtors	500,463,108	-	500,463,108	354,577,088	(145,886,020)	58
Income from agency services	305,764,329	(56,473,421)	249,290,908	246,003,581	(3,287,327)	58
Licences and permits	54,329,293	441,636	54,770,929	32,915,237	(21,855,692)	58
Other income	175,280,129	(2,950,000)	172,330,129	154,054,203	(18,275,926)	58
Interest revenue	434,099,216	-	434,099,216	306,732,178	(127,367,038)	58
Total revenue from exchange transactions	26,109,365,135	(940,452,426)	25,168,912,709	24,274,613,109	(894,299,600)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6,140,478,219	-	6,140,478,219	5,668,546,859	(471,931,360)	58
Property rates - penalties and collection charges	55,402,125	-	55,402,125	83,401,449	27,999,324	58
Transfer revenue						
Government grants & subsidies	8,497,563,754	408,347,962	8,905,911,716	8,402,560,341	(503,351,375)	58
Public contributions and donations	-	-	-	143,384,792	143,384,792	58
Fines	363,795,955	434,396,805	798,192,760	720,757,605	(77,435,155)	58
Total revenue from non-exchange transactions	15,057,240,053	842,744,767	15,899,984,820	15,018,651,046	(881,333,774)	
Total revenue	41,166,605,188	(97,707,659)	41,068,897,529	39,293,264,155	(1,775,633,374)	
Expenditure						
Employee related cost	(9,373,707,111)	336,719,421	(9,036,987,690)	(8,769,926,678)	267,061,012	58
Remuneration of councillors	(139,695,066)	(3,100,000)	(142,795,066)	(141,224,613)	1,570,453	58
Depreciation and amortisation	(2,119,771,357)	-	(2,119,771,357)	(2,613,405,797)	(493,634,440)	58
Impairment and derecognition loss	-	-	-	(43,793,819)	(43,793,819)	58
Finance costs	(1,039,013,274)	227,000,000	(812,013,274)	(1,187,412,121)	(375,398,847)	58
Debt Impairment	(1,571,974,175)	(1,408,283,344)	(2,980,257,519)	(3,702,413,924)	(722,156,405)	58
Collection costs	(181,011,406)	54,296,218	(126,715,188)	(114,868,883)	11,846,305	58
Bulk purchases	(16,554,571,360)	620,651,699	(15,933,919,661)	(15,932,324,318)	1,595,343	58
Contracted Services	(2,309,345,648)	(648,047,559)	(2,957,393,207)	(2,527,617,945)	429,775,262	58
Grants and Subsidies	(1,646,010,271)	27,662,975	(1,618,347,296)	(1,490,674,297)	127,672,999	58
General Expenses	(3,592,661,960)	329,425,218	(3,263,236,742)	(3,041,181,627)	222,055,115	58
Total expenditure	(38,527,761,628)	(463,675,372)	(38,991,437,000)	(39,564,844,022)	(573,407,022)	
Operating deficit	2,638,843,560	(561,383,031)	2,077,460,529	(271,579,867)	(2,349,040,396)	
Loss on disposal of capital assets	(15,307,321)	-	(15,307,321)	18,039,993	33,347,314	58
Deficit before taxation	2,623,536,239	(561,383,031)	2,062,153,208	(253,539,874)	(2,315,693,082)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	2,623,536,239	(561,383,031)	2,062,153,208	(253,539,874)	(2,315,693,082)	

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

	Original budget Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget	
2020												
Financial Performance												
Property rates	6,195,880,344	-	6,195,880,344	-		6,195,880,344	5,751,948,308		(443,932,036)	93 %	93 %	
Service charges	24,549,978,488	(873,003,508)	23,676,974,980	-		23,676,974,980	23,096,231,665		(580,743,315)	98 %	94 %	
Investment revenue	434,099,216	-	434,099,216	-		434,099,216	306,732,178		(127,367,038)	71 %	71 %	
Transfers recognised - operational	5,874,142,146	969,730,993	6,843,873,139	-		6,843,873,139	6,386,562,658		(457,310,481)	93 %	109 %	
Other own revenue	1,489,083,386	366,947,887	1,856,031,273	-		1,856,031,273	1,610,446,864		(245,584,409)	87 %	108 %	
Total revenue (excluding capital transfers and contributions)	38,543,183,580	463,675,372	39,006,858,952	-		39,006,858,952	37,151,921,673		(1,854,937,279)	95 %	96 %	
Employee costs	(9,373,707,111)	336,718,826	(9,036,988,285)	-	595	(9,036,987,690)	(8,769,926,678)	-	267,061,012	97 %	94 %	
Remuneration of councillors	(139,695,066)	(3,100,000)	(142,795,066)	-		-	(142,795,066)	(141,224,613)	-	1,570,453	99 %	101 %
Debt impairment	(1,571,974,175)	(1,408,283,344)	(2,980,257,519)	-		(2,980,257,519)	(3,702,413,924)	-	(722,156,405)	124 %	236 %	
Depreciation and asset impairment	(2,119,771,357)	-	(2,119,771,357)	-		(2,119,771,357)	(2,657,199,616)	-	(537,428,259)	125 %	125 %	
Finance charges	(1,039,013,274)	227,000,000	(812,013,274)	-		-	(812,013,274)	(1,187,412,121)	-	(375,398,847)	146 %	114 %
Materials and bulk purchases	(16,554,571,360)	620,651,699	(15,933,919,661)	-		-	(15,933,919,661)	(15,932,324,318)	-	1,595,343	100 %	96 %
Transfers and grants	(1,646,010,271)	28,333,619	(1,617,676,652)	-		(670,644)	(1,618,347,296)	(1,490,674,297)	-	127,672,999	92 %	91 %
Other expenditure	(6,098,326,335)	(264,996,172)	(6,363,322,507)	-		670,049	(6,362,652,458)	(5,683,668,455)	-	678,984,003	89 %	93 %
Total expenditure	(38,543,068,949)	(463,675,372)	(39,006,744,321)	-		- (39,006,744,321)	(39,564,844,022)		- (558,099,701)	101 %	103 %	
Surplus/(Deficit)	114,631	-	114,631	-		114,631	(2,412,922,349)		(2,413,036,980)	104,947 %	104,947 %	
Transfers recognised - capital	2,623,421,608	(561,383,031)	2,062,038,577	-		2,062,038,577	2,015,997,683		(46,040,894)	98 %	77 %	
Contributions recognised - capital and contributed assets	-	-	-	-		-	143,384,792		143,384,792	- %	- %	
Surplus (Deficit) after capital transfers and contributions	2,623,536,239	(561,383,031)	2,062,153,208	-		2,062,153,208	(253,539,874)		(2,315,693,082)	(12)%	(10)%	
Surplus/(Deficit) for the year	2,623,536,239	(561,383,031)	2,062,153,208	-		2,062,153,208	(253,539,874)		(2,315,693,082)	(12)%	(10)%	

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Budget on Accrual Basis		Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference		
Figures in Rand									
Capital expenditure and funds sources									
Total capital expenditure	7,239,927,097	(2,390,307,079)	4,849,620,018	-	4,849,620,018	4,982,395,259	132,775,241	103 %	69 %
Cash flows									
Net cash from (used) operating	6,090,628,741	(2,681,840,610)	3,408,788,131	-	3,408,788,131	2,139,553,143	(1,269,234,988)	63 %	35 %
Net cash from (used) investing	(6,596,725,192)	2,416,582,610	(4,180,142,582)	-	(4,180,142,582)	(5,207,804,548)	(1,027,661,966)	125 %	79 %
Net cash from (used) financing	2,830,933,728	(661,908,000)	2,169,025,728	-	2,169,025,728	1,281,594,392	(887,431,336)	59 %	45 %
Net increase/(decrease) in cash and cash equivalents	2,324,837,277	(927,166,000)	1,397,671,277	-	1,397,671,277	(1,786,657,013)	(3,184,328,290)	(128)%	(77)%
Cash and cash equivalents at the beginning of the year	3,529,056,000	-	3,529,056,000	-	3,529,056,000	3,430,881,905	(98,174,095)	97 %	97 %
Cash and cash equivalents at year end	5,853,893,277	(927,166,000)	4,926,727,277	-	4,926,727,277	1,644,224,892	3,282,502,385	33 %	28 %

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where otherwise specified.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5 (GRAP Reporting Framework).

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of the annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless, otherwise specified. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy."

The amounts presented in the financial statements are rounded to the nearest rand.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

In the process of applying the City's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have significant effect on the amounts recognised in the annual financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively:

•Going Concern

Management considers key financial metrics and approved medium-term budgets, together with the City's dependency on the grants from national and provincial government, to conclude that the going concern assumptions used in the compilation of its annual financial statements, is appropriate.

• Operating lease commitments - City as lessor or leases

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in statement of financial performance on a straight-line basis over the period of the lease.

• Pension and other post – employment benefits

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further assumptions and estimates are disclosed in **note 15** to the financial statements.

• Cash-generating assets

The City is not a profit-oriented entity as its primary objective is service delivery. Tariffs and charges are cost-reflective to ensure continued financial sustainability. No profit element is included in the determination of a tariff.

As such, management has determined that the city does not control assets that meet the definition of cash-generating assets, and that the GRAP standard for the impairment of non-cash-generating assets will apply to all assets of the city.

• Impairment of receivables

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. The City first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

• Impairment of property, plant and equipment

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

• Residual value of property, plant and equipment

Management has determined that none of its infrastructure assets have an active market value, and the value of the amount at the end of their useful lives would therefore be insignificant.

• Useful lives of property, plant and equipment and investment property held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets are also based on management judgements on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

• Significant delays in assets under construction

The City regards delays in assets under construction of more than three years as significant. Further disclosures are made in **notes 2 to 5** to the financial statements.

• Investment accounted using the cost model

The City has accounted for the investment in Rand airport using the cost model, the City has a 20% shareholding. The reason for accounting this under the cost model is due to the fact the city has not exercised significant control, does not participate in operations or management decision nor serve on the board of directors of the entity.

• Provisions, contingent liabilities and contingent assets

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Accounting Policies

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and assets. Provisions are discounted, where the effect of discounting is material, using cost of capital.

• Traffic Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the City.

• Budget information

A difference of 8% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

• Material losses

Material losses are losses that occur due to factors other than normal production and utilisation, and are regarded as material if their omission or misstatement will affect the decisions made by users of the information. The losses disclosed include that of technical losses and non-technical losses related to water and electricity.

Losses that occur due to normal production and utilisation are classified as production costs and factored into the City's tariffs. They, therefore, do not constitute material losses. If actual production and utilisation losses exceed the normal budgeted production and utilisation losses factored into the tariff, this difference is considered material losses.

• Service charges

Service charges relating to electricity, water and sanitation are based on consumption. Waste removal is based on the size of the bin and the number of times it is collected. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumption are made monthly when meter readings have not been performed. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. Waste removal services are billed on a monthly basis.

Services provided on a prepaid basis

Various services are provided on a prepaid basis in which case no formal billing takes place and revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

1.2 Presentation currency

This annual financial statements are presented in South African Rand, which is the functional currency of the City.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, the City measures investment property at cost including transaction costs, once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The City depreciates separately each part of an item of investment property that has a cost that is significant in relation to the total cost of the item. A significant part of an item of investment property may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. The annual depreciation rates are based on the following estimated average asset lives:

Item	Useful life
Property - land	Indefinite
Property - buildings	14 - 80 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in the statement of financial performance when the compensation becomes receivable.

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Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the City; and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Servitudes that are acquired with the relevant infrastructure items are capitalised with the relating infrastructure asset when it is an integral part of the asset.

Assets under construction represents capital expenditure incurred on projects not yet completed nor ready for use at period end. Assets under construction are carried at cost.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

The City maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

The City depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets. Depreciation starts when the asset is available for use. Assets under construction are not depreciated.

The depreciation rates are based on the following estimated useful lives:

Item	Useful life
Land	Indefinite
Buildings	14 - 80 years

Infrastructure

Roads and stormwater	2 - 100 years
Pedestrian bridges	10 - 60 years
Electricity	3 - 100 years
Water	3 - 100 years
Sewer	3 - 100 years
Housing	80 years
Solid Waste	5 - 100 years
ICT	5 - 50 years
Waste water purification works	2 - 82 years

Community

Buildings	14 - 80 years
Recreational facilities	10 - 80 years
Security	5 - 15 years
Landfill sites	10 - 80 years

Other property, plant and equipment

Furniture and fittings	3 - 33 years
Water craft	15 years
Office equipment	3 - 35 years
Specialised plant and equipment	10 - 26 years
Other items of plant and equipment	2 - 29 years
Buildings	20 - 80 years

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Accounting Policies

1.4 Property, plant and equipment (continued)

Specialised vehicles	3 - 20 years
Other vehicles	3 - 28 years

Assets under construction are not depreciated.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of property, plant and equipment are reviewed at least at every reporting date.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

The City assesses at each reporting date whether there is any indication that the City expectations about the residual value and the useful life of an asset has changed since the preceding reporting date. If any such indication exists, the City revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in the statement of financial performance unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of financial performance when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

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Accounting Policies

1.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets and obligations.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the City, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation to intangible assets is provided on a straight line basis as follows:

Item	Useful life
Computer software	1 - 23 years
Servitudes	indefinite

The gain or loss arising from the derecognition of an intangible asset is recognised in the statement of financial performance when the asset is derecognised.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- > it is technically feasible to complete the asset so that it will be available for use or sale.
- > there is an intention to complete and use or sell it.
- > there is an ability to use or sell it.
- > it will generate probable future economic benefits or service potential.
- > there are available technical, financial and other resources to complete the development and to use or sell the asset.
- > the expenditure attributable to the asset during its development can be measured reliably.

City of Ekurhuleni Metropolitan Municipality

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Accounting Policies

1.6 Heritage assets

A heritage asset is as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held indefinitely for the benefit of present and future generations.

The City recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the City, and the cost or fair value of the asset can be measured reliably.

Heritage assets are measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. The cost of a purchased heritage asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Heritage assets are subsequently measured at cost, less accumulated impairment losses. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Transfers to and from heritage assets are done at the carrying amount of the assets transferred at the date of transfer.

The City assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the City estimates the recoverable amount or the recoverable service amount of the heritage asset.

Most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no definite limit to the period over which a heritage asset is expected to be held by the City. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial.

The City derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of a heritage asset is recognised in the statement of financial performance when the asset is derecognised.

1.7 Investments in controlled entities

Municipal controlled entities are those entities which the City owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the City's annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.

City of Ekurhuleni Metropolitan Municipality

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Accounting Policies

1.8 Financial instruments

Financial Instruments

A financial instrument is recognised if the City becomes a party to the contractual provisions of the instrument.

Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with the Standards of GRAP 104 the Financial Assets of the City are classified as follows into the three categories allowed by this standard:

- Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current asset
- Financial assets measured at fair value being financial assets that meet either of the following conditions:
 - a) Derivatives;
 - b) Combined instruments that are designated at fair value;
 - c) Instruments held for trading;
 - d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
 - e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The City has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of financial assets

Other investments
 Receivables from exchange
 Cash and cash equivalents
 Long-term receivables
 Other investments (unlisted shares)

Classifications

amortised cost
 amortised cost
 amortised cost
 amortised cost
 cost

Financial Liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of financial liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at fair value; or
- Financial liabilities measured at amortised cost.

The City has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of financial liability

Long-term liabilities
 Trade and other-payables from exchange transactions
 Consumer deposits
 Finance lease obligations

Classifications

amortised cost
 amortised cost
 amortised cost
 amortised cost

Initial recognition

The City recognises a financial asset or a financial liability in its statement of financial position when the City becomes a party to the contractual provisions of the instrument.

The City recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The City measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The City first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the City analysis a concessionary loan into its component parts and accounts for each component separately. The City accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

City of Ekurhuleni Metropolitan Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The City measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value;
- Financial instruments at amortised cost; and
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review at each reporting period.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the City establishes fair value by using a valuation technique.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in the statement of financial performance.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in the statement of financial performance when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectability of financial assets

The City assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in the statement of financial performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the statement of financial performance.

b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

a) Financial assets

The City derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the City has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in the statement of financial performance.

b) Financial liabilities

The City removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of financial performance. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the City currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.8 Financial instruments (continued)

In accounting for a transfer of a financial asset that does not qualify for derecognition, the City does not offset the transferred asset and the associated liability.

1.9 Statutory receivables

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

- The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means. Statutoty received comprises of Property Rates and Traffic Fines
- An entity shall recognise statutory receivables as follows:
 - (a) if the transaction is an exchange transaction;
 - (b) if the transaction is a non-exchange transaction; or
 - (c) if the transaction is not within the scope of the Standards of GRAP listed in (a) or (b) or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.
- Statutory receivables that that meets the definition of an asset shall be recognised as an asset when, and only when:
 - (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
 - (b) the fair value of the asset can be measured reliably.
- An entity shall derecognise a statutory receivable, or a part thereof, when:
 - (a) the rights to the cash flows from the receivable are settled, expire or are waived; or
 - (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable.

City of Ekurhuleni Metropolitan Municipality

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Accounting Policies

1.10 Inventories

Inventories are assets:

- a) in the form of materials or supplies to be consumed in the production process;
- b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
- c) held for sale or distribution in the ordinary course of operations; or
- d) in the process of production for sale or distribution.

Inventories shall be recognised as an asset if, and only if:

- it is probable that future economic benefits or service potential associated with the item will flow to the City; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. The cost of inventory shall comprise of all costs, costs of conversion and other costs, incurred to bringing the inventories to their present location and condition.

Where inventory is acquired by the City for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories held for sale in the ordinary course of business are valued at the lower of cost and net realisable value, or where unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost or current replacement cost.

Inventories held for consumption, distribution, consumables stores, raw materials, finished goods and unsold properties, are valued at lower of cost and net replacement cost.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at weighted average cost at the reporting date based on the water volume in the network on hand.

Redundant and slow-moving inventories are identified and written down to the estimated net realisable value, and are recognised as an expense in the period in which the write-down or loss occurs. Inventories identified for write-down/write-off, but for which a council resolution, to authorise the write-down/write-off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.11 Provisions and contingencies

A provision is recognised when the City has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The City does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures to which the provision was originally recognised.

a) COID provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 6.70% (2019: 6.50%) per annum over members' expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 10.81% (2019: 10.68%).

b) Landfill rehabilitation provision

The landfill rehabilitation provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at the cost of capital (time value of money), which is currently 10.81% (2019: 10.68%).

The City has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the City incurs as a consequence of having used the property during a particular period for landfill purposes. The City estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

Changes in the measurement of the provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of financial performance; and
- c) if the adjustment results in an addition to the cost of an asset, the City considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If such an indication exists, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in the statement of financial performance.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in the statement of financial performance as they occur.

The periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

1.12 Receivables from non exchange transactions

Non-exchange transaction that meets the definition of an asset shall be recognised as an asset when, and only when:

- (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the fair value of the asset can be measured reliably.

•An entity shall derecognise a non exchange receivable, or a part thereof, when:

- (a) the rights to the cash flows from the non-receivable are settled, expire or are waived; or
- (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the non-receivable.

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Accounting Policies

1.13 Impairment of cash-generating assets

The City classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

The City does not have any cash generating assets, as its primary objective is service delivery.

1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The City assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the City estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

The City assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.15 Employee benefits

The City provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Benefits

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and a reliable estimate can be made at the reporting date.

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end, any unused leave days are forfeited six months after the end of leave cycle.

Long services awards

The City offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

Retirement funds

The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

Defined contribution plans

A defined contribution plan is a plan under which the city pays fixed contributions into a separate entity. The City has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The City's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

Defined benefit plans

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Employee benefits (continued)

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate.

Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The City recognises all liabilities and all gains and losses.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the City is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the City receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

The City recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the City and when specific criteria have been met for each of the City's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The City bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the City directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service Charges

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and are recognised as revenue when billed. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Services provided on prepaid

Various services are provided on a prepaid services in which case there is no formal billing takes place and revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- > the City has transferred to the buyer the significant risks and rewards of ownership of the goods;
- > the City retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- > the amount of revenue can be measured reliably;
- > it is probable that the economic benefits or service potential associated with the transaction will flow to the City;
- > the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from agency services

Income for agency services, where the entity acts as an agent, is recognised monthly once the income collected on behalf of principals is earned. The income is recognised in terms of the agency agreement.

Interest

Interest earned on investments is recognised in the statement of financial performance on a time-proportionate basis, which takes into account the effective yield on the investment.

Dividends

Dividends are recognised on the date that the City becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits older than one (1) year are recognised as revenue.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the City received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Rates and Taxes – non-exchange revenue

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the City is expected to enforce.

Subsequent to initial recognition and measurement, the City assesses the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions

Donations and funding are recognised as revenue to the extent that the City has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies

Unconditional Grants

Equitable share allocations are recognised in revenue when they are appropriated and received by the City.

Conditional Grants

Conditional grants recognised as revenue to the extent that the City has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the City's interest it is recognised as interest earned in the Statement of Financial Performance.

Services Received In-kind

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the City, and the fair value of the assets can be measured reliably.

Unspent conditional grants and receipts

Amounts received before the related work is performed are included in the statement of financial position as a liability, as unspent conditional grants and receipts.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.18 Grant-in-aid (expense)

The City annually awards grants to individuals and organisations based on merit. When making these transfers, the City does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.19 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the City. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Finance leases – lessor

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by the City in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Accounting by principals and agents

Identification

When an entity is party to a principal-agent arrangement, it shall assess whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement. The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

An entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

When an entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If an entity concludes that it is not the agent, then it is the principal in the transactions.

An agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal. An entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of other Standards of GRAP.

City of Ekurhuleni Metropolitan Municipality

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Accounting Policies

1.22 Value Added Tax

The City accounts for value-added tax (VAT) on the payment basis.

1.23 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, City or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the City's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Internal reserves

Included in the accumulated surplus are internal reserves, no separate line items are presented, in accordance with the GRAP reporting framework, but provision is made in the budget process for funding of these reserve. The amounts set aside for these reserves are invested in accordance with the investment policy of the City. The following internal reserves are maintained:

Capital replacement reserve (CRR)

The reserve is created for the replacement of service delivery assets when they reach the end of their economic lives to ensure continue of provision of such services, and to minimise the impact of raising external funding or over reliance on grant funds.

Self-insurance reserve

A self insurance reserve was established for a self-insurance purpose and to minimize the external insurance costs. The reserve is based on recognised insurance industry principles to complement the external cover provided by insurance companies.

Sinking funds reserve

The reserve is created for the provision of repayments of long-term borrowing raised to funds capital projects, and to meet repayment conditions on such borrowings.

1.27 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this annual financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.28 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, City Manager, Head of departments and all other managers reporting directly to the City Manager or as designated by the City Manager.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.29 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the annual financial statements relate. The City adjusts the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date. The City does not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

1.30 Commitments

The City discloses capital expenditure as approved in the budget for each class of capital assets (PPE, investment properties, intangible assets and heritage assets) and as well as future minimum lease payments under non-cancellable operating leases. No commitments are disclosed for operating expenditure as the nature of the contracts "As and When required".

1.31 Going concern

These annual financial statements were prepared based on the expectation that the City will continue to operate as a going concern for at least the next 12 months. The City's budget for the next financial year as approved by Council is fully funded.

1.32 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are restated. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The following standards and interpretations have been published and are mandatory for the City's accounting periods beginning on or after:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 July 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 July 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 July 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 July 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 July 2020	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards were approved, but their effective dates were not yet determined by the Minister of Finance:

Standard/ Interpretation:	Expected impact:
• GRAP 110 (as amended 2016): Living and Non-living Resources	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	Unlikely there will be a material impact

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	654,824,617	(124,000,475)	530,824,142	616,240,923	(113,993,772)	502,247,151

Reconciliation of investment property - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Investment property	502,247,151	38,829,032	(245,337)	13,563,059	(13,563,059)	(10,006,704)	530,824,142

Reconciliation of investment property - 2019

	Opening balance	Additions	Depreciation	Total
Investment property	496,369,539	13,563,059	(7,685,447)	502,247,151

Investment property in the process of being constructed or developed

Opening balance			
Opening Balance	13,563,059	-	
Additions	38,829,032	-	
Net of capitalisations and write-off	(13,563,059)	13,563,059	
	38,829,032	13,563,059	

The City did not have any investment projects which took significant long to complete as projects are being implemented in phases. There were no projects which were halted during the year.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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3. New standards and interpretations (continued)

Other disclosure

Total rental income received on investment property	22,211,244	16,062,741
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Cumulative amount of borrowing costs included in the carrying amount of qualified assets

Disclosure of repairs and maintenance (material and other cost)	26,894,689	42,821,320
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the City

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,212,083,974	-	2,212,083,974	2,215,543,574	-	2,215,543,574
Infrastructure	61,844,362,340	(17,840,189,241)	44,004,173,099	58,340,736,189	(16,110,098,776)	42,230,637,413
Community	9,619,689,194	(2,569,090,412)	7,050,598,782	8,941,628,508	(2,263,070,773)	6,678,557,735
Movable Assets	4,273,636,631	(2,756,906,921)	1,516,729,710	4,092,154,062	(2,427,226,839)	1,664,927,223
Operational and housing buildings	3,520,704,654	(1,156,304,537)	2,364,400,117	3,382,664,703	(1,046,217,476)	2,336,447,227
Total	81,470,476,793	(24,322,491,111)	57,147,985,682	76,972,727,036	(21,846,613,864)	55,126,113,172

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers to Capitalisation	Other changes	Transfers to/from other classes	Depreciation	Total
Land	2,215,543,574	-	(3,459,600)	-	-	-	-	-	2,212,083,974
Infrastructure	42,230,637,413	3,765,777,898	(17,436,107)	2,663,014,877	(3,068,085,342)	114,198,685	52,599,243	(1,736,533,568)	44,004,173,099
Community	6,678,557,735	359,825,664	(16,164,171)	877,711,657	(493,306,453)	(25,343,542)	(24,662,468)	(306,019,640)	7,050,598,782
Movable Assets	1,664,927,223	231,548,033	(2,580,504)	26,862,677	-	-	-	(404,027,719)	1,516,729,710
Operational and housing buildings	2,336,447,227	150,578,621	(468,000)	45,072,525	(24,407,462)	(30,535,523)	(2,200,210)	(110,087,061)	2,364,400,117
Total	55,126,113,172	4,507,730,216	(40,108,382)	3,612,661,736	(3,585,799,257)	58,319,620	25,736,565	(2,556,667,988)	57,147,985,682

City of Ekurhuleni Metropolitan Municipality

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Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals/Derecognition	Transfers from assets under construction	Transfers to asset class	Other changes, movements	Transfer to other classes	Depreciation	Impairment loss	Total
Land	2,219,604,124	-	(4,060,550)	-	-	-	-	-	-	2,215,543,574
Infrastructure	40,225,896,206	4,232,816,650	(57,333,997)	963,245,862	(1,322,512,233)	29,628,665	(292,193,185)	(1,548,865,787)	(44,768)	42,230,637,413
Community	5,824,598,045	822,201,985	(839,735)	583,587,327	(284,358,140)	13,791,161	(33,686,891)	(245,108,791)	(1,627,226)	6,678,557,735
Movable Assets	1,616,188,376	413,997,110	(10,010,338)	-	-	-	-	(355,247,925)	-	1,664,927,223
Operational and housing buildings	2,200,988,889	244,617,171	(7,552)	20,738,732	(20,738,732)	-	-	(109,135,273)	(16,008)	2,336,447,227
	52,087,275,640	5,713,632,916	(72,252,172)	1,567,571,921	(1,627,609,105)	43,419,826	(325,880,076)	(2,258,357,776)	(1,688,002)	55,126,113,172

Assets taking significant longer to complete

The City identified the followings projects deemed to be taking significantly long to complete, the projects taking longer to complete can be categorised into the following reasons, projects in planning and design phase (47 projects), projects in construction phase (28 projects), suspended due to budgets contraints (8 projects) and poor performance (7 projects). These can also be attributed to adverse economic conditions, failing liquidity position and impact of covid 19.

The City did not have any capital projects that took significant longer to complete (2019), as projects are being implemented in phases. There were no projects which were halted during the year.

The City disclosed the aggregate amount per class as per below:

Assets Class	2020	2019
Infrastructure	R308 193 132	-
Community	R17 285 648	-
Operational and housing buildings	R128 313 309	-

Disclosure of repairs and maintenance (material and other costs)

Infrastructure	2,055,986,283	2,048,610,456
Community	816,485	745,268
Other property, plant and equipment	552,809,297	284,814,029
	2,609,612,065	2,334,169,753

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4. Property, plant and equipment (continued)

Compensation received for losses on property, plant and equipment – included in operating profit.

Buildings	-	1,573,328
Motor vehicles	-	81,165
IT equipment	166,836	-
Infrastructure	-	24,038,454
	166,836	25,692,947

Reconciliation of assets under construction 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	4,916,988,220	913,772,621	431,217,564	6,261,978,405
Additions/capital expenditure	3,765,777,898	359,825,664	150,578,953	4,276,182,515
Other movement:transfer to/(from)other assets	15,551,013	(41,951,388)	(33,203,733)	(59,604,108)
Transferred to completed items	(3,068,085,343)	(493,306,453)	(24,407,462)	(3,585,799,258)
	5,630,231,788	738,340,444	524,185,322	6,892,757,554

Reconciliation of assets under construction 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	2,335,850,066	375,928,776	207,339,125	2,919,117,967
Additions/capital expenditure	4,232,816,560	822,201,985	244,617,171	5,299,635,716
Other movement:transfer to/(from)other assets	(329,166,173)	-	-	(329,166,173)
Transferred to completed items	(1,322,512,233)	(284,358,140)	(20,738,732)	(1,627,609,105)
	4,916,988,220	913,772,621	431,217,564	6,261,978,405

Assets taking significant longer to complete

The City did not have any projects which took significantly long to complete due to the fact that projects are being implemented in phases. There were no projects which were halted during the year under review.

The transfer (to)/from movement relates to transfers within the asset categories and out of property, plant and equipment, which were affected as follows, an amount of R65 654 835 (2019: R277,121,139) was transferred to inventory. Capital spares were bought as part of the project's capital expenditure, which were transferred to/(from) inventory R118,254,078 (2019: R15,031 251) this relates to the net movement of capital spares for the year between the inventory account and the WIP account, refer note 10.

Deemed cost

Included in other movement, are additions received from public contributed assets with deemed cost amounts of R143 384 792 (2019: R29,628,665). Deemed cost was determined using fair value or depreciated replacement cost, depending on the most appropriate measurement for the specific asset/scenario.

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5. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (other)	1,138,508,307	(162,175,264)	976,333,043	861,238,780	(114,920,911)	746,317,869
Rights to use naturally occurring assets	243,798,639	-	243,798,639	243,798,639	-	243,798,639
Total	1,382,306,946	(162,175,264)	1,220,131,682	1,105,037,419	(114,920,911)	990,116,508

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Transfers received	Transfers	Amortisation	Impairment loss	Total
Computer software	746,317,869	277,269,527	440,648,068	(440,648,068)	(46,731,104)	(523,249)	976,333,043
Servitudes	243,798,639	-	-	-	-	-	243,798,639
	990,116,508	277,269,527	440,648,068	(440,648,068)	(46,731,104)	(523,249)	1,220,131,682

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers received from other classes	Amortisation	Impairment loss	Total
Computer software	628,215,870	258,397,644	(35,613,857)	(86,581,140)	60,077,886	(71,374,500)	(6,804,034)	746,317,869
Servitudes	243,798,639	-	-	-	-	-	-	243,798,639
	872,014,509	258,397,644	(35,613,857)	(86,581,140)	60,077,886	(71,374,500)	(6,804,034)	990,116,508

Other information

Reconciliation of work in progress

Included in additions is the following amounts relating to software still in development:

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5. Intangible assets (continued)

Work in progress

Opening balance	327,618,921	150,589,234
Software development incurred during the year	277,269,527	258,397,644
Transfers/ capitalisation	(440,648,068)	(81,367,957)
	<u>164,240,380</u>	<u>327,618,921</u>

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6. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art collections,antiquities and exhibits	20,216,333	(31,600)	20,184,733	20,216,333	(31,600)	20,184,733
Conservation areas	351,149	(1,877,834)	(1,526,685)	351,149	-	351,149
Historical buildings	5,425,362	(1,039,016)	4,386,346	5,425,362	-	5,425,362
Other heritage assets	43,040,667	-	43,040,667	43,040,667	-	43,040,667
Total	69,033,511	(2,948,450)	66,085,061	69,033,511	(31,600)	69,001,911

Reconciliation of heritage assets 2020

	Opening balance	Impairment losses recognised	Total
Art collections,antiquities and exhibits	20,184,733	-	20,184,733
Conservation areas	351,149	(1,877,834)	(1,526,685)
Historical buildings	5,425,362	(1,039,016)	4,386,346
Other heritage assets	43,040,667	-	43,040,667
	69,001,911	(2,916,850)	66,085,061

Reconciliation of heritage assets 2019

	Opening balance	Impairment losses recognised	Total
Art collections,antiquities and exhibits	20,216,333	(31,600)	20,184,733
Conservation areas	351,149	-	351,149
Historical buildings	5,425,362	-	5,425,362
Other heritage assets	43,040,667	-	43,040,667
	69,033,511	(31,600)	69,001,911

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6. Heritage assets (continued)

Deemed costs

Deemed cost was determined using fair value or depreciated replacement cost.

7. Investments in controlled entities

Name of company	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Brakpan Bus Company SOC Ltd	100.00 %	100.00 %	6	6
East Rand Water Care Company, NPC	97.00 %	97.00 %	-	-
Ekurhuleni Housing Company	100.00 %	100.00 %	100	100
			106	106

8. Other investments

At cost

Unlisted shares	4,000,000	4,000,000

At amortised cost

Investments	2,469,622,604	2,085,662,816
These investments have varying interest rates as well as varying maturity dates.		

Non-current assets

At cost	4,000,000	4,000,000
At amortised cost	612,146,743	1,911,108,684
	616,146,743	1,915,108,684

Current assets

At amortised cost	1,857,475,861	174,554,132
	2,473,622,604	2,089,662,816

Residual interest at cost

Fair value information has not been provided for equity instruments that do not have a quoted market price therefore fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

Rand Airport	4,000,000	4,000,000
20% interest in ordinary shares		

The company's draft financial statements used were for the period ended 29 February 2016 and no audited financial information was received for financial years ending 2016 to 2020

The company's equity amounted to R605,743,120 represented by share capital of R5,201,000, reserves of R147,090,563 as well as retained income of R453,451,557 as at 28 February 2016.

The City has not reclassified any financial assets from cost or amortised cost to fair value during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets for the year ended 2020, as all the financial assets will be disposed of at their redemption date.

Investments with a carrying value of R2,197,566,525 (2019: R1,899,477,077) are held with the top five banks in South Africa for the repayment of long term liabilities with a carrying value of R2,415,000,000 (2019: R2,415,000,000) as disclosed in the long-term liabilities note (note 16). The amount of R2,415,000,000 consists of three bonds for which structured deposit sinking funds were established.

None of the investments at amortised cost are past due or impaired.

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8. Other investments (continued)

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (as determined by rating agencies) available, or to historical information about counterparty default rates. Investments are only made with South African top five banks.

9. Long-term receivables

Non-current receivables	5,469,652	5,437,683
Bad debt provision	(2,124,452)	(2,108,468)
	3,345,200	3,329,215

The long-term receivables comprises of:

Rental deposits made	R1,220,747 (June 2019 - R1,220,747)
Housing schemes	R2,124,453 (June 2019 - R2,108,468)

10. Inventories

Electrical consumables	212,882,722	371,273,510
Cleansing consumables	3,703,686	1,816,907
Consumable stores	11,827,718	6,597,116
Maintenance materials	17,086,345	18,719,637
Water consumables	16,585,417	12,216,795
Water inventory	8,419,976	10,223,389
Land held as inventory for social housing and development	997,672,782	932,556,347
Fuel (diesel, petrol)	14,395,592	8,952,164
	1,282,574,238	1,362,355,865
	1,282,574,238	1,362,355,865

Inventory written down due to redundancy/obsolescence is valued at R0 (2019: R0) by way of a provision for obsolete inventories.

An amount of R65 654 835 (2019: R277,121,139) was received from property, plant and equipment. Capital spares worth R118,254,078 (2019: R15,031 251) was to property, plant and equipment this relates to the net movement of capital spares for the year between the inventory account and the WIP account.

Included in the inventory balance is land held for social housing development that has been carried for more than 12 months due to the development of the social housing units taking more than 12 months to complete.	932,017,947	113,874,788
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11. Receivables from exchange transactions

Consumer debtors - Electricity - Gross	3,619,504,162	3,092,603,039
Consumer debtors - Electricity - Impairment	(1,660,444,044)	(1,434,173,340)
Consumer debtors - Water - Gross	6,668,688,715	4,776,864,532
Consumer debtors - Water - Impairment	(4,697,474,114)	(3,416,635,945)
Consumer debtors - Waste water - Gross	1,876,232,542	1,319,288,928
Consumer debtors - Waste water - Impairment	(1,265,931,549)	(943,332,145)
Consumer debtors - Refuse - Gross	1,631,585,094	1,201,442,853
Consumer debtors - Refuse - Impairment	(1,242,691,561)	(937,652,272)
Consumer debtors - Other - Gross	132,995,056	97,515,190
Consumer debtors - Other - Impairment	(122,349,236)	(92,245,202)
Consumer debtors - Interest and sundries - Gross	1,855,232,648	1,442,452,749
Consumer debtors - Interest and sundries - Impairment	(1,467,051,552)	(638,035,846)
Pre-paid electricity 3rd party vendors	80,962,857	79,995,709
Other receivables	190,353,337	144,719,441
VAT accruals on outstanding creditors	640,601,809	660,380,096
VAT receivables	46,613,406	241,461,299
Operating lease straightline	2,592,301	1,794,075
Allowance other receivables	(146,027,686)	(140,743,329)
	6,143,392,185	5,455,699,832

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11. Receivables from exchange transactions (continued)

Receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by previous payments and collection trends, and any other default information.

12. Statutory receivables

Traffic fines - Gross	1,133,256,790	-
Traffic fines - Impairment	(904,563,621)	-
Property rates debtors - Gross	2,674,568,932	-
Property rates debtors - Impairment	(2,039,311,859)	-
	863,950,242	-

Credit quality of statutory receivables

The credit quality of statutory receivables that are neither past nor due nor impaired can be assessed by previous payments and collection trends, and any other default information.

13. Receivables from non-exchange transactions

Traffic fines - Gross	-	669,354,380
Traffic fines - Impairment	-	(569,501,701)
Property rates debtors - Gross	-	2,083,158,022
Property rates debtors - Impairment	-	(1,652,302,832)
Germiston Municipal Retirement Fund	5,113,059	37,084,479
	5,113,059	567,792,348

Credit quality of non-exchange transactions

The credit quality of non-exchange transactions that are neither past nor due nor impaired can be assessed by previous payments and collection trends, and any other default information.

14. Consumer debtors disclosure

Gross balances

Consumer debtors - Rates	2,674,568,932	2,083,158,022
Consumer debtors - Electricity	3,619,504,162	3,092,603,039
Consumer debtors - Water	6,668,688,715	4,776,864,532
Consumer debtors - Waste water	1,876,232,542	1,319,288,928
Consumer debtors - Refuse	1,631,585,094	1,201,442,853
Consumer debtors - Other	132,995,056	97,515,190
Consumer debtors - Interest and sundries	1,855,232,648	1,442,452,749
	18,458,807,149	14,013,325,313

Less: Allowance for impairment

Consumer debtors - Rates	(2,039,311,859)	(1,652,302,832)
Consumer debtors - Electricity	(1,660,444,044)	(1,434,173,340)
Consumer debtors - Water	(4,697,474,114)	(3,416,635,945)
Consumer debtors - Waste water	(1,265,931,549)	(943,332,145)
Consumer debtors - Refuse	(1,242,691,561)	(937,652,272)
Consumer debtors - Other	(122,349,236)	(92,245,202)
Consumer debtors - Interest and sundries	(1,467,051,552)	(638,035,846)
	(12,495,253,915)	(9,114,377,582)

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14. Consumer debtors disclosure (continued)

Net balance

Consumer debtors - Rates	635,257,073	430,855,190
Consumer debtors - Electricity	1,959,060,118	1,658,429,699
Consumer debtors - Water	1,971,214,601	1,360,228,587
Consumer debtors - Waste water	610,300,993	375,956,783
Consumer debtors - Refuse	388,893,533	263,790,581
Consumer debtors - Housing rental	10,645,820	5,269,988
Consumer debtors - Interest and sundries	388,181,096	804,416,903
	5,963,553,234	4,898,947,731

Included in above is receivables from exchange transactions

Electricity	1,959,060,117	1,658,429,699
Water	1,971,214,601	1,360,228,587
Waste water	610,300,993	375,956,783
Refuse	388,893,533	263,790,581
Housing rental	10,645,820	5,269,988
Interest and sundries	388,181,096	804,416,903
	5,328,296,160	4,468,092,541

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	635,257,072	430,855,192
Net balance	5,963,553,232	4,898,947,733

Rates

Current (0 -30 days)	389,861,671	353,808,578
31 - 60 days	149,944,709	101,646,158
61 - 90 days	113,296,645	79,799,942
91 - 120 days	2,021,465,907	1,547,903,344
	2,674,568,932	2,083,158,022

Electricity

Current (0 -30 days)	2,347,631,830	2,171,724,367
31 - 60 days	169,375,012	124,879,054
61 - 90 days	99,489,814	69,433,515
91 - 120 days	1,003,007,503	726,566,102
	3,619,504,159	3,092,603,038

Water

Current (0 -30 days)	1,127,932,676	788,941,304
31 - 60 days	272,130,987	185,532,421
61 - 90 days	173,422,008	151,825,200
91 - 120 days	5,095,203,044	3,650,565,607
	6,668,688,715	4,776,864,532

Waste water

Current (0 -30 days)	394,649,078	243,815,683
31 - 60 days	74,942,383	52,432,878
61 - 90 days	49,278,036	40,516,047
91 - 120 days	1,357,363,044	982,524,319
	1,876,232,541	1,319,288,927

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14. Consumer debtors disclosure (continued)

Refuse

Current (0 -30 days)	108,299,817	96,981,648
31 - 60 days	61,029,660	46,919,716
61 - 90 days	53,430,783	40,680,768
91 - 120 days	1,408,824,833	1,016,860,720
	1,631,585,093	1,201,442,852

Housing rental

Current (0 -30 days)	1,466,769	1,120,421
31 - 60 days	4,605,803	2,098,209
61 - 90 days	4,127,172	2,051,357
91 - 120 days	122,795,312	92,245,202
	132,995,056	97,515,189

Other (specify)

Current (0 -30 days)	66,878,111	83,784,868
31 - 60 days	18,529,524	52,062,481
61 - 90 days	39,200,086	48,067,115
91 - 120 days	1,730,624,927	1,258,538,285
	1,855,232,648	1,442,452,749

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14. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Residential

Current (0 -30 days)	2,005,778,355	1,445,775,316
31 - 60 days	485,449,785	381,414,154
61 - 90 days	365,773,333	310,869,086
91 - 120 days	10,684,427,934	7,724,321,486
	<hr/>	<hr/>
Less: Allowance for impairment	13,541,429,407 (9,984,206,675)	9,862,380,042 (7,127,249,837)
	<hr/>	<hr/>
	3,557,222,732	2,735,130,205

Industrial/ commercial

Current (0 -30 days)	2,253,717,567	2,146,949,057
31 - 60 days	228,048,987	164,662,932
61 - 90 days	141,978,882	108,390,145
91 - 120 days	1,753,693,257	1,295,528,001
	<hr/>	<hr/>
Less: Allowance for impairment	4,377,438,693 (2,336,544,872)	3,715,530,135 (1,869,991,443)
	<hr/>	<hr/>
	2,040,893,821	1,845,538,692

National and provincial government

Current (0 -30 days)	93,194,844	80,371,484
31 - 60 days	29,773,142	14,566,849
61 - 90 days	17,739,884	8,072,274
91 - 120 days	51,210,735	64,282,981
	<hr/>	<hr/>
Less: Allowance for impairment	191,918,605 (89,615,431)	167,293,588 (73,380,482)
	<hr/>	<hr/>
	102,303,174	93,913,106

Total

Current (0 -30 days)	4,436,719,952	3,740,176,869
31 - 60 days	750,558,079	565,570,918
61 - 90 days	532,244,545	432,373,944
91 - 120 days	12,739,284,572	9,275,203,581
	<hr/>	<hr/>
Less: Allowance for impairment	18,458,807,148 (12,495,253,915)	14,013,325,312 (9,114,377,580)
	<hr/>	<hr/>
	5,963,553,233	4,898,947,732

Less: Allowance for impairment

Current (0 -30 days)	(2,315,939,896)	(1,424,530,513)
31 - 60 days	(403,902,883)	(336,654,872)
61 - 90 days	(386,255,546)	(305,640,071)
91 - 120 days	(9,389,155,590)	(7,047,552,126)
	<hr/>	<hr/>
	(12,495,253,915)	(9,114,377,582)

Reconciliation of allowance for impairment

Balance at beginning of the year	(9,114,377,582)	(11,347,187,333)
Contributions to allowance	(3,638,005,622)	(4,062,101,226)
Debt impairment written off against allowance	257,129,289	6,294,910,977
	<hr/>	<hr/>
	(12,495,253,915)	(9,114,377,582)

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14. Consumer debtors disclosure (continued)

The total debtors for June 2020 includes a total of R2,163,623,877 (2019: R1,822,903,893) in respect of the value of revenue emanating from various meter reading cut-off dates at year end. This is an annual occurrence and is adjusted at every financial year end.

Credit quality of consumer debtors

In determining the recoverability of a receivable, the City considers any change in the credit quality of the receivable from the date on which the credit was initially granted, up to the reporting date. The concentration of credit risk is limited but take into consideration the repayments trends and collection rate, as the consumer base is large and unrelated. Accordingly, management believes that further credit provision are required in excess of the present allowance for doubtful debts.

Consumer debtors past due but not impaired

30 Days	2,120,780,056	2,315,646,356
60 Days	346,655,195	228,916,046
90 Days	145,988,999	126,733,873
90+ Days	3,350,128,983	2,227,651,457
	5,963,553,233	4,898,947,732

The ageing of consumer debts impaired

30 Days	2,315,939,896	1,424,530,513
60 Days	403,902,883	336,654,872
90 Days	386,255,546	305,640,071
90+ Days	9,389,155,590	7,047,552,126
	12,495,253,915	9,114,377,582

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	568,714	566,714
Bank balances	1,643,656,178	3,430,315,191
	1,644,224,892	3,430,881,905

The City has provided bank guarantees to the amount of R30,304,487 (2019: R30,304,487) with regards to special clauses in contracts concluded with various third parties. Most of these conditions have been met, and the guarantees will be cancelled in due course.

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15. Cash and cash equivalents (continued)

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash book balances

ABSA - Income Benoni	349,264	105,399
ABSA - Direct banking Benoni	14,462,290	7,616,350
ABSA - Direct banking KL Boksburg	10,829,750	4,006,631
ABSA - Income Brakpan	2,549,481	7,965,128
ABSA - Direct banking Germiston	20,325,729	7,458,364
ABSA - Direct banking Kempton Park	11,314,384	4,957,763
ABSA - Direct banking Edenvale	4,092,261	1,988,926
FNB Muask Account Edenvale	59,168,390	40,758,837
ABSA - Direct banking Springs	19,477,534	9,546,987
ABSA - Market account	1,134,982	1,134,982
STANDARD BANK - Mask Account Springs	42,270,981	48,293,123
ABSA - Primary bank account	(1)	-
ABSA - Salary account	(10,527)	-
ABSA - Treasury account	35,598,069	56,642,950
ABSA - Expenditure imprest account	58,580	-
Lease Bank Account	311,039	162,089
Petty Cash and Floats	568,714	566,714
ABSA - Traffic Fines collection	400	-
NEDBANK Mask Account	(4,047,631)	(1,492,274)
E-Siyakhokha Mask Account	(437)	2,405,297
Nedbank - Salary Account	13,491,579	46,759,415
Nedbank - Expenditure Account	(105,638,637)	230,632,761
Nedbank - Treasury Account	165,917,082	1,205,074,449
Nedbank - USDG Account	113,392,378	516,058,884
Nedbank - Housing Account	24,761,151	512,883,693
Nedbank - Depreciation Reserve Account	576,296	94,945,755
Nedbank - External Finance Fund Account	16,399,834	190,772,368
Nedbank - Primary Bank Account	1,080,760,505	366,545,973
Nedbank - IRPTN Funding account	860,237	1,275,565
Nedbank - IRPTN Bank Collect	13,844,839	4,933,524
Nedbank - Traffic Fines Collection	310,386	118,174
Nedbank - License Account	7,522,026	3,161,616
Nedbank - Income Alberton	2,674,729	2,901,586
Nedbank - Direct banking Alberton	1,438,715	229,022
Nedbank - Income Benoni	5,205,396	2,754,904
Nedbank - Direct banking Benoni	1,491,626	271,724
Nedbank - Siyakhokha	8,405,929	(338,014)
Nedbank - Income Boksburg	5,255,173	3,267,047
Nedbank - Direct banking Boksburg	5,965,139	370,665
Nedbank - Prepaid Sales Account	10,813,692	-
Nedbank - Solid Waste Account	122,793	(255,863)
Nedbank - Income Brakpan	1,416,179	4,511,463
Nedbank - Direct banking Brakpan	692,084	109,976
Nedbank - Income Edenvale	1,037,726	1,276,613
Nedbank - Direct banking Edenvale	13,979,719	229,831
Nedbank - Income Germiston	2,149,647	3,475,843
Nedbank - Direct banking Germiston	4,478,693	544,697
Nedbank - Income Kempton Park	4,391,770	4,140,636
Nedbank - Direct banking Kempton Park	2,535,037	557,163
Nedbank - Income Nigel	704,495	498,941
Nedbank - Direct banking Nigel	1,715,219	12,430,864
Nedbank - Income Springs	13,893,837	9,718,294
Nedbank - Direct banking Springs	4,756,675	17,807,144
Nedbank - Springs Market Account	417,980	1,099,926
Nedbank - Library Account	31,711	-
	1,644,224,892	3,430,881,905

The City had the following bank accounts

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15. Cash and cash equivalents (continued)

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA BANK - Direct Banking Alberton - 111-840-0646	-	-	-	-	-	(2,170)
ABSA BANK - Income Benoni - 4055327394	349,264	105,399	11,296	349,264	105,399	(1,630)
ABSA BANK - Direct Banking Benoni - 4055328015	14,462,290	7,616,350	15,494,808	14,462,290	7,616,350	15,358,331
ABSA BANK - Mask Account Benoni - 4065622380	-	-	-	-	-	(7,200)
ABSA BANK - Direct Banking KL Boksburg - 230000220	10,829,818	4,044,754	6,840,482	10,829,750	4,006,631	6,824,417
ABSA BANK - Income Brakpan - 240000024	2,549,481	7,712,058	8,336,677	2,549,481	7,965,128	9,263,765
ABSA BANK - Direct banking Germiston - 2500000804	20,325,729	7,458,364	13,317,168	20,325,729	7,458,364	12,937,425
ABSA BANK - Direct banking Kempton Park - 260181599	14,999,535	4,957,763	7,559,044	11,314,384	4,957,763	7,284,215
ABSA BANK - Direct banking Edenvale- 4055442596	4,092,261	1,988,926	2,837,422	4,092,261	1,988,926	2,837,422
ABSA BANK - Direct Springs - 280000051	19,479,176	9,546,987	9,872,330	19,477,534	9,546,987	9,862,659
ABSA BANK - Fresh Produce Market - 1135470160	-	-	1,163,055	1,134,982	1,134,982	1,134,982
ABSA BANK - Primary bank Acc - 4053835084	(1)	-	-	(1)	-	-
ABSA BANK - Salary account - 4055571973	-	-	(408,626)	(10,527)	-	(408,626)
ABSA BANK - Treasury account - 4055571931	35,598,069	56,642,950	51,575,863	35,598,069	56,642,950	51,575,863
ABSA BANK - Expenditure imprest acc - 4055571915	58,580	-	2,322	58,580	-	1,104
CoE Traffic fines 4072777706	-	-	-	400	-	-
FNB Mask account 62379403745	59,168,390	40,758,837	280,898,399	59,168,390	40,758,837	280,861,841
Petty Cash and Floats	-	-	-	568,714	566,714	568,727
Standard bank mask account	42,270,981	48,293,123	336,516,929	42,270,981	48,293,123	336,502,057
E-Siyakhokha Mask Account	1,249,440	2,358,518	4,500,060	(437)	2,405,297	4,505,548
Nedbank Income Alberton	-	-	-	2,674,729	2,901,586	2,037,977
Nedbank Direct banking Alberton	-	-	-	1,438,715	229,022	164,926
Nedbank Direct banking Benoni	-	-	-	1,491,626	271,724	347,082
Nedbank Income Benoni	-	-	-	5,205,396	2,754,904	2,418,012
Nedbank Income Boksburg	-	-	-	5,255,173	3,267,047	5,196,614
Nedbank Direct banking Boksburg	-	-	-	5,965,139	370,665	1,521,170
Nedbank Direct banking Brakpan	-	-	-	692,084	109,976	52,216
Nedbank Income Brakpan	-	-	-	1,416,179	4,511,463	3,864,024
Nedbank Direct banking Edenvale	-	-	-	13,979,719	229,831	119,412
Nedbank Income Edenvale	-	-	-	1,037,726	1,276,613	767,829
Nedbank Direct banking Germiston	-	-	-	4,478,693	544,693	303,113
Nedbank Income Germiston	-	-	-	2,149,647	3,475,843	3,850,161
Nedbank Dir banking Kempton Park	-	-	-	2,535,037	557,163	428,483
Nedbank Income Kempton Park	-	-	-	4,391,770	4,140,636	3,907,190
Nedbank direct banking Nigel	-	-	-	1,715,219	12,430,864	1,833,473
Nedbank Income Nigel	-	-	-	704,495	498,941	1,042,270
Nedbank Direct banking Springs	-	-	-	4,756,675	17,807,144	13,740,363
Nedbank Income Springs	-	-	-	13,893,837	9,718,294	1,940,538
Nedbank Library account	-	-	-	-	-	(72,858)
Nedbank IRPTN Bank 2 Funding 1119114845	860,236	1,275,565	1,199,314	860,237	1,275,565	1,199,314
Nedbank IRPTN Transport - collection 1120949068	13,844,839	4,933,524	324,298	13,844,839	4,933,524	324,298
Nedbank Salary account 1119114837	14,445,354	47,348,481	108,308,936	13,491,579	46,759,415	107,896,164
Nedbank Expenditure account 1119114829	(16,711,609)	347,259,153	317,520,367	(105,638,637)	230,632,761	271,007,922
Nedbank Treasury account 1119114810	165,917,082	1,247,583,105	218,446,048	165,917,082	1,205,074,449	190,596,582

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15. Cash and cash equivalents (continued)						
Nedbank USDG account 1119114802	113,392,378	516,058,884	744,250,820	113,392,378	516,058,884	744,250,820
Nedbank Housing account 1119114799	24,761,151	512,883,693	40,991,016	24,761,151	512,883,693	40,991,016
Nedbank Depreciation Reserve account 1119114780	576,296	94,945,755	555,139,180	576,296	94,945,755	555,139,180
Nedbank External Funding Fund 1119114772	16,399,834	190,772,368	154,590,125	16,399,834	190,772,368	154,590,125
Nedbank Primary Bank account 1119114764	1,081,978,938	366,545,973	574,470,613	1,080,760,505	366,545,974	574,470,613
Nedbank Springs Market account 1119114853	417,980	1,099,925	1,427,188	417,980	1,099,925	1,427,188
Nedbank Traffic Fines account	-	-	-	310,386	118,174	135,669
Nedbank License account	-	-	-	7,522,026	3,161,616	2,823,129
Nedbank E-Siyakhokha	-	-	-	8,405,929	(338,014)	(54,695)
Nedbank Mask account 1104446634	(4,552,112)	(1,492,274)	100,322,524	(4,047,631)	(1,492,274)	100,325,450
Nedbank Pre paid account	-	-	-	10,813,692	-	-
Nedbank Solid Waste account	-	-	-	122,793	(255,863)	38,961
CoE Lease Account Nedbank	-	-	-	311,039	162,089	71,334
Nedbank Library Account	-	-	-	31,711	-	-
Total	1,636,763,380	3,520,698,181	3,555,507,658	1,644,224,892	3,430,881,901	3,527,793,795

16. Long-term liabilities

Designated at fair value

Bank loan - DBSA	2,024,933,185	2,000,000,000
Interest on the DBSA loans varies from 11.49% and 11.55%. The loans are unsecured. Capital will be repaid by means of a once-off bullet repayment at maturity of the loan, redemption date: May 2034.		
Bank loan - Nedbank	971,424,897	1,000,000,000
Interest rates on the loan is 10.27%. The loan is unsecured. The loan shall be repaid by not later than the termination date and shall be repaid in semi-annual instalments, redemption date: June 2034.		
Bank loan - ABSA	437,965,685	484,175,283
Interest rates on the loan is 11.68%. The loan is unsecured. The loans shall be repaid in semi-annual instalments. Redemption dates between February 2025 and May 2025.		
Municipal bonds	6,528,619,283	5,088,619,971
Interest rates on the JSE CoE bonds vary between 9.155% and 11.80 % per annum. Redemption dates on these bonds vary between July 2020 and July 2032.		
	9,962,943,050	8,572,795,254

At amortised cost

Short term portion of long term liabilities	2,338,021,378	557,145,611
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Non-current liabilities

At amortised cost	7,624,921,670	8,124,203,045
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Current liabilities

At amortised cost	2,338,021,378	557,145,611
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Encumbered investments

Investments with a carrying value of R2,197,566,525 (2019:R1,899,477,077) are encumbered in respect of long term liabilities above with a carrying value of R2,415,000,000 (2019:R2,415,000,000) as disclosed in the other investments note (note 8). The amount of R2,415,000,000 consist of three bonds for which structured deposit sinking funds were established.

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17. Retirement benefit obligations

Retirement Funds

The City provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable. The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

The council took a resolution in terms of an agreement with SALGA that the contribution rate to pension funds will be capped at 18% of salaries for new members joining pension funds after 1 July 2012 and also that the deducted contribution will only be transferred to defined contribution pension funds.

Defined Contribution Funds

Where an employee has rendered services to the City during the year, the City recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

Defined Benefit Plans

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved. The City contributes to the following defined benefit plans, which are governed by the Pension Fund Act of 1956 due to the nature of these funds and the fact that there is no consistent and reliable basis for allocating the obligation. Plan assets and cost to individual entities participating in the plan, these funds are accounted for as defined contribution funds in terms of paragraph 31 of GRAP 25, the total contributions are included in employee related costs, Note 29. As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds. The City's participation in these plans is limited to the obligation of its own employees. Due to the nature of the funds, the obligation for each fund cannot be reasonably determined.

The following funds have been treated as definded contribution plans although they are defined benefit funds:

1. Joint Municipal Pension Fund

The average contribution rate payable is 7.5% by the members and on average 22% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed in September 2018 certified that the fund is in a sound financial state. The City of Ekurhuleni has 87 employees in this plan.

2. Municipal Employees Pension Fund

The average contribution rate payable is 7.5% by the members. The City of Ekurhuleni contributes 22% and 18% of members who existed as at 30 June 2012 and 01 July 2012, respectively. The last actuarial valuation on this fund was performed in February 2017 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 1293 employees in this plan.

3. South African Local Authorities Pension Fund

The average contribution rate payable is 9% by the members and on average 20.78% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed as at 1 July 2015 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 77 employees in this plan.

Germiston Municipal Retirement Fund (GMRF) is a defined contribution fund for active contributing members but a defined benefit fund for certain pensioners under the old rules taken in the rules of the fund. During 2005 GMRF outsourced the full administration of the pensioners component which relates to the old rules of the defined benefit fund.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

2. Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end. Refer to provisions note (note 18) for leave pay provision.

Retirement benefit obligation (medical aid plan)

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

The number of employees who are eligible for post-retirement benefits as at 30 June 2020 are 12,560 (2019: 12,142) in-service employees and 1890 (2019: 1,863) pensioners. The actuarial valuation was performed by Zaqen Actuaries (Pty) Ltd by applying the Projected Unit Funding method.

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17. Retirement benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded

(2,130,088,581)

(2,058,871,581)

Movements for the year

Opening balance	<u>(2,058,871,581)</u>	<u>(1,954,081,581)</u>
Benefits paid	98,284,562	94,006,442
Net expense recognised in the statement of financial performance	<u>(169,501,562)</u>	<u>(198,796,442)</u>
	<u>(2,130,088,581)</u>	<u>(2,058,871,581)</u>

Net expense recognised in the statement of financial performance

Current service cost	<u>(59,612,000)</u>	<u>(56,847,000)</u>
Interest cost	<u>(202,255,000)</u>	<u>(192,321,000)</u>
Actuarial gains	<u>92,365,438</u>	<u>50,371,558</u>
	<u>(169,501,562)</u>	<u>(198,796,442)</u>

Key assumptions used

Assumptions used on last valuation on Tuesday, 30 June 2020.

Discount rates used (controlling entity)	7.40 %	8.00 %
Health care cost inflation rate (controlling entity)	5.23 %	5.96 %

Other assumptions:

Key Demographic Assumptions

Assumption

Average retirement age for the City
Continuation of membership at retirement
Proportion assumed married at retirement
Mortality tables
Mortality post-retirement for pensioners

Value

63
90%
90%
SA 85/90
PA90

Withdrawal from service

Age	Males	Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

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17. Retirement benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in the statement of financial performance. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Medical inflation (service cost and interest cost)	337,702,406	300,464,073
Medical inflation (liability)	2,231,349,223	2,001,142,609
Valuation interest rate (service cost and interest cost)	283,337,035	369,186,535
Valuation interest rate (liability)	1,905,816,457	2,401,379,142

	2020	2019	2018	2017	2016
	R	R	R	R	R
Defined benefit obligation	(2,130,088,581)	(2,058,871,581)	(1,954,081,581)	(2,202,485,063)	(2,527,235,581)
Deficit	(2,130,088,581)	(2,058,871,581)	(1,954,081,581)	(2,202,485,063)	(2,527,235,581)
Experience adjustments on plan	(17,870,000)	(18,863,000)	(128,639,000)	(234,450,000)	(271,494,000)

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18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Decreased during the year	Change in discount factor	Total
COID provision	29,589,263	-	(2,417,806)	-	-	27,171,457
Bonus provision	61,522,024	-	(19,194,408)	-	-	42,327,616
Leave provision	511,380,626	208,184,884	(185,149,020)	-	-	534,416,490
Landfill rehabilitation provision	354,859,369	-	(33,158,439)	-	38,360,298	360,061,228
Long service awards	500,851,000	35,333,000	(8,644,424)	(70,485,576)	49,226,000	506,280,000
GMRF	-	85,928,869	-	-	-	85,928,869
	1,458,202,282	329,446,753	(248,564,097)	(70,485,576)	87,586,298	1,556,185,660

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Increased during the year	Change in discount factor	Total
COID provision	31,337,074	154,889	(1,902,700)	-	-	29,589,263
Bonus provision	80,597,388	21,807,050	(40,882,414)	-	-	61,522,024
Leave provision	500,255,652	233,840,546	(222,715,572)	-	-	511,380,626
Landfill rehabilitation provision	348,631,220	-	(30,999,156)	-	37,227,305	354,859,369
Long service awards	466,339,000	34,874,000	(6,959,789)	(39,220,211)	45,818,000	500,851,000
GMRF	13,034,576	-	(13,034,576)	-	-	-
	1,440,194,910	290,676,485	(316,494,207)	(39,220,211)	83,045,305	1,458,202,282
Non-current liabilities				979,441,554		885,299,632
Current liabilities				576,744,106		572,902,650
				1,556,185,660		1,458,202,282

The provision relates to claims against the City, instituted by the Germiston Municipal Retirement Fund in terms of the rules of the pension fund where the required investment yield was not been achieved. The timing of the outflow is uncertain, as well as the relating amount due to interest charges.

COID provision

This provision is made for future expected outflows as a result of the City's obligation to contribute towards occupational injuries with various employees in the old Benoni and Germiston local municipalities. The discount rate used in determining the present value of the obligation is 10.81% (2019:10.68%) and the inflation assumption used for the increase in expenses/contributions is 6.7% (2019: 6.5%).

Leave and bonus provision

The liability is based on the total accrued leave days at year end, which includes section 57 employees. The bonus is performance based, and is dependent on a performance assessment. The timing of both the leave and bonus is uncertain.

Landfill rehabilitation provision

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision. The discounting rate is 10.81% (2019:10.68%).The timing of outflow is uncertain, as well as relating amounts due to discounting and charges in inflation rates.

The net result of the re-estimation had the following effect on the current year amounts:

Decrease in the cost of property, plant and equipment R24,218,793 (2019: decrease of R13,791,164)

Amount recognised in profit and loss due to re-estimation where the adjustment exceeded the carrying amount of the asset by R8,939,646.34 (2019:R13,791,164)

Long service awards provision

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18. Provisions (continued)

An actuarial valuation for 2020 was performed by Zaqen Actuaries (Pty) Ltd.
 Discount rate used: 7.40% (2019: 8.00%)
 CPI used: 4.23% (2019: 4.96%)
 Salary increase rate used: 6.7% (2019: 6.5%)

19. Trade and other payables from exchange transactions

Licence fees	14,831,883	13,433,371
Maintenance guarantees: new township development infrastructure	6,951,769	5,018,577
Other payables	665,276,159	469,623,376
Receipts in advance	751,664,790	568,344,906
Retentions	956,248,379	882,428,396
Trade payables	5,501,041,662	5,135,806,686
Unclaimed salaries	8,333,494	8,166,400
VAT balance on outstanding debtors	642,520,326	428,372,082
	8,546,868,462	7,511,193,794

20. Deposits

Consumer deposits - electricity and water	935,100,451	916,990,548
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Guarantees in lieu of electricity and water deposits is R164,507,780 (2019:R 143,827,981).

21. Unspent conditional grants and receipts

The unspent conditional grant and receipts relates to funds received for multi-year capital projects for which the funds are not yet spent at year end, other than that the conditions were met.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

HIV/AIDS	95,224	761
FMG	435,233	396,077
SETA	6,997,896	4,729,237
USDG	61,084,003	290,862,219
HSDG Accreditation	418,666,047	505,738,586
Electricity demand side management	-	9,705
INEP	-	8,302,337
NDPG	1,176,185	5,304,228
PTNG	-	143,893,542
Capital grant: Libraries	530,560	-
Libraries	3,874,872	614,423
	492,860,020	959,851,115

Movement during the period

Balance at the beginning of the year	959,851,115	577,020,651
Additions during the year	8,384,203,654	8,354,903,093
Income recognition during the year	(8,402,560,341)	(7,724,271,767)
Appropriations	(448,634,408)	(247,800,862)
	492,860,020	959,851,115

See note 26 for reconciliation of all grants.

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22. Revenue

Service charges	23,096,231,665	21,153,924,617
Rental of facilities and equipment	84,099,157	76,002,723
Interest earned - outstanding debtors	354,577,088	393,388,972
Income from agency services	246,003,581	305,156,458
Licences and permits	32,915,237	43,989,029
Other income	154,054,203	235,914,589
Interest revenue	306,732,178	393,246,152
Property rates	5,668,546,859	5,395,430,732
Property rates - penalties and collection charges	83,401,449	83,532,438
Government grants & subsidies	8,402,560,341	7,724,271,767
Public contributions and donations	143,384,792	29,628,665
Fines	720,757,605	820,850,338
Gains on sale of assets	18,039,993	-
	39,311,304,148	36,655,336,480

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	23,096,231,665	21,153,924,617
Rental of facilities and equipment	84,099,157	76,002,723
Interest earned - outstanding debtors	354,577,088	393,388,972
Income from agency services	246,003,581	305,156,458
Licences and permits	32,915,237	43,989,029
Other income	154,054,203	235,914,589
Interest revenue	306,732,178	393,246,152
Gains on sale of assets	18,039,993	-
	24,292,653,102	22,601,622,540

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	5,668,546,859	5,395,430,732
Property rates - penalties and collection charges	83,401,449	83,532,438
Transfer revenue		
Government grants & subsidies	8,402,560,341	7,724,271,767
Public contributions and donations	143,384,792	29,628,665
Fines	720,757,605	820,850,338
	15,018,651,046	14,053,713,940

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23. Property rates

Rates received

Residential	2,553,550,438	2,313,067,619
Commercial	2,638,592,066	2,756,052,550
Small holdings and farms	14,023,410	14,028,730
Vacant land	284,168,774	277,465,046
Other properties	178,212,171	34,816,787
Property rates - penalties and collection charges	83,401,449	83,532,438
	5,751,948,308	5,478,963,170

Valuations (R'000)

Residential	309,877,836	307,436,088
Commercial	125,168,594	123,771,447
Provincial and National Government	6,663,674	6,645,259
Municipal	4,230,048	4,228,875
Small holdings and farms	6,494,131	6,552,932
Sectional title	56,837,101	54,898,919
Vacant land	13,496,103	13,103,817
Other	22,702,151	25,419,978
	545,469,638	542,057,315

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis, interest is levied on outstanding account if paid after due date.

24. Service charges

Sale of electricity	14,764,479,920	13,857,573,322
Sale of water	5,123,977,848	4,428,833,210
Solid waste	1,354,567,504	1,317,984,027
Sewerage and sanitation charges	1,784,785,421	1,476,648,437
Fresh produce market	24,011,827	22,298,167
Other service charges	44,409,145	50,587,454
	23,096,231,665	21,153,924,617

25. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	84,060,862	75,980,706
Rental of equipment	38,295	22,017
	84,099,157	76,002,723

Included in the above rentals are operating lease rentals at straight-lined amounts of R8,740,476 (2019: R7,484,051) as well as month to month rentals of R31,306,210 (2019: R30,999,472).

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26. Government grants and subsidies

Operating grants

Equitable share	3,478,290,694	3,145,138,000
Fuel levy	1,711,291,000	1,734,629,000
Emergency Management Services (EMS)	177,033,000	167,328,000
Finance management grant	960,845	603,923
HIV/AIDS grant	14,273,536	13,977,475
Libraries Plan	7,787,717	4,592,008
Sector Education and Training Authority (Seta)	11,978,301	9,452,848
Primary Health Care	145,898,000	137,900,000
Human Settlements Development Grant (HSDG)	78,675,730	11,602,555
Electricity Demand Side Management	-	161,715
Urban Settlements Development Grant (USDG)	487,287,258	228,677,893
Public transport Network Grant	266,327,720	177,944,897
Expanded Public Works Program (EPWP)	22,022,000	25,054,000
	<u>6,401,825,801</u>	<u>5,657,062,314</u>

Capital grants

Intergated National Electrification Programme (INEP)	8,302,337	36,697,663
Urban Settlements Development Grant (USDG)	1,424,142,745	1,624,658,529
Public Transport Network Grant (PTNG)	412,825,274	282,801,560
Electricity Demand Side Management	-	13,828,580
Recapitalisation of Community Libraries	8,253,375	8,990,350
Integrated City Development(ICDG)	54,295,002	45,536,999
Neighbourhood Development Partnership Grant (NDPG)	92,915,807	54,695,772
	<u>2,000,734,540</u>	<u>2,067,209,453</u>
	<u>8,402,560,341</u>	<u>7,724,271,767</u>

Equitable share

Current-year receipts	3,478,290,694	3,145,138,000
Conditions met - transferred to revenue	(3,478,290,694)	(3,145,138,000)
	<u>-</u>	<u>-</u>

Fuel levy

Current-year receipts	1,711,291,000	1,734,629,000
Conditions met - transferred to revenue	(1,711,291,000)	(1,734,629,000)
	<u>-</u>	<u>-</u>

Emergency Management Services

Current-year receipts	177,033,000	167,328,000
Conditions met - transferred to revenue	(177,033,000)	(167,328,000)
	<u>-</u>	<u>-</u>

Finance Management Grant

Balance unspent at beginning of year	396,077	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(960,844)	(603,923)
	<u>435,233</u>	<u>396,077</u>

HIV/AIDS

Balance unspent at beginning of year	760	-
Current-year receipts	14,368,000	13,978,235
Conditions met - transferred to revenue	(14,273,536)	(13,977,475)

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26. Government grants and subsidies (continued)

95,224

760

Libraries

Balance unspent at beginning of year	614,421	1,114,863
Current-year receipts	20,000,000	13,700,000
Conditions met - transferred to revenue	(16,041,092)	(13,582,357)
Surrendered/Appropriated	(167,897)	(618,085)
	4,405,432	614,421

Seta

Balance unspent at beginning of year	4,729,237	-
Current-year receipts	14,246,960	14,182,085
Conditions met - transferred to revenue	(11,978,301)	(9,452,848)
	6,997,896	4,729,237

Primary Health Care (PHC)

Current-year receipts	145,898,000	137,900,000
Conditions met - transferred to revenue	(145,898,000)	(137,900,000)
	-	-

INEP

Balance unspent at beginning of year	8,302,337	-
Current-year receipts	-	45,000,000
Conditions met - transferred to revenue	(8,302,337)	(36,697,663)
	-	8,302,337

Integrated City Development

Current-year receipts	54,295,000	45,537,000
Conditions met - transferred to revenue	(54,295,000)	(45,537,000)
	-	-

PTNG

Balance unspent at beginning of year	143,893,543	234,939,914
Current-year receipts	679,153,000	604,640,000
Conditions met - transferred to revenue	(679,153,000)	(460,746,457)
Surrendered/Appropriated	(143,893,543)	(234,939,914)
	-	143,893,543

Conditions still to be met - remain liabilities (see note 21).

Electricity Demand Site Management

Balance unspent at beginning of year	9,705	108
Current-year receipts	-	14,000,000
Conditions met - transferred to revenue	-	(13,990,295)
Surrendered/Appropriated	(9,705)	(108)
	-	9,705

Conditions still to be met - remain liabilities (see note 21).

USDG

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26. Government grants and subsidies (continued)

Balance unspent at beginning of year	290,862,219	314,723,641
Current-year receipts	1,972,514,000	1,835,475,000
Conditions met - transferred to revenue	(1,911,429,997)	(1,853,336,422)
Surrendered/Appropriated	(290,862,219)	(6,000,000)
	61,084,003	290,862,219

Conditions still to be met - remain liabilities (see note 21).

EPWP

Balance unspent at beginning of year	-	94,962
Current-year receipts	22,022,000	25,054,000
Conditions met - transferred to revenue	(22,022,000)	(25,054,000)
Surrendered/Appropriated	-	(94,962)
	-	-

Conditions still to be met - remain liabilities (see note 21).

NDPG

Balance unspent at beginning of year	5,304,227	6,147,792
Current-year receipts	94,092,000	60,000,000
Conditions met - transferred to revenue	(92,915,815)	(54,695,772)
Surrendered/Appropriated	(5,304,227)	(6,147,793)
	1,176,185	5,304,227

Conditions still to be met - remain liabilities (see note 21).

HSDG Accreditation

Balance unspent at beginning of year	505,738,586	19,999,371
Current-year receipts	-	497,341,770
Conditions met - transferred to revenue	(78,675,723)	(11,602,555)
Surrendered/Appropriated	(8,396,816)	-
	418,666,047	505,738,586

Conditions still to be met - remain liabilities (see note 21).

27. Interest revenue

Interest revenue		
Bank	111,482,493	222,945,741
External investments	195,249,685	170,300,411
	306,732,178	393,246,152

28. Other income

Administration fees	134,710	131,043
Accident reports	827,164	1,108,415
Cleaning of stands	96,992	430,499
Essential services contributions	42,715,937	98,543,042
Entry fees	203,387	305,549
Printing and copying of documents	3,589,512	1,194,349
Supply of information	446,551	575,827
Training	88,765	105,303
Sundry income	105,617,735	132,935,372
Tender documents	333,450	585,190
	154,054,203	235,914,589

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29. Employee related costs

Basic	5,167,264,553	4,805,441,449
Bonus	400,235,713	519,879,022
Medical aid - company contributions	424,111,662	452,706,419
Unemployment Insurance Fund	31,731,052	31,672,304
Workmens Compensation	52,889,263	49,665,334
Skills Development Levy	60,683,825	67,116,589
Other payroll levies	1,928,690	1,822,434
Leave pay provision charge	208,184,883	233,723,324
Current service costs	86,300,576	91,721,000
Standby Allowances	74,069,056	58,035,929
Actuarial gains	(162,851,014)	(89,591,769)
Defined contribution plans	1,110,783,473	917,262,193
Travel, motor car, accommodation, subsistence and other allowances	232,960,070	232,704,454
Overtime payments	932,740,478	824,699,493
Long-service awards	8,644,424	(56,628,523)
Acting allowances	70,418,947	88,514,309
Housing benefits and allowances	63,642,708	60,718,519
Allowances	19,872,745	19,475,516
Less: employee costs capitalised to property, plant and equipment	(13,684,426)	(28,309,679)
	8,769,926,678	8,280,628,317

Senior Management Remuneration (Key Management) for the period ended 30 June 2020	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	3,182,420	68,025	154,528	347,188	55,200	3,807,361
Chief Operating Officer (Vacant 01/12/2019)	2,482,202	149,393	172,537	-	45,000	2,849,132
Chief Financial Officer	2,421,272	1,785	180,000	-	43,200	2,646,257
Head of Department: Internal Audit	2,283,598	213,549	120,000	-	43,200	2,660,347
Head of Department : Electricity & Energy	2,053,315	179,098	276,340	291,407	213,420	3,013,580
Head of Department: Strategy & Corporate Planning	1,731,495	214,446	170,820	139,256	43,200	2,299,217
Head of Department : Health	1,639,835	296,955	120,000	131,645	43,200	2,231,635
Head of Department : Corporate Legal	2,391,180	131,385	120,000	163,081	43,200	2,848,846
Head of Department: Communication	1,817,989	150,020	120,000	133,150	43,200	2,264,359
Head of Department : Human Resource	2,296,400	77,384	96,000	117,165	43,200	2,630,149

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29. Employee related costs (continued)						
Head of Department :	501,744	595	27,000	139,469	10,800	679,608
Sport, Recreation, Arts and Culture (SRAC)(Resigne d 30/09/2019)						
Head of Department :: Sport, Recreation, Arts and Culture (SRAC)(Appointe d 01/12/2019)	1,033,086	26,707	140,000	-	25,200	1,224,993
Head of Department : City Development	2,055,005	1,785	-	-	43,200	2,099,990
Head of Department : Community Safety	1,759,631	200,566	127,812	80,865	43,200	2,212,074
Head of Department: Human Settlement	2,656,000	1,785	144,000	83,994	43,200	2,928,979
Head of Department: Economic Development	2,305,404	1,784	180,000	158,629	43,200	2,689,017
Head of Department : ICT	1,779,165	128,844	180,000	-	43,200	2,131,209
Head of Department : Transport (Acting from 06/03/2018)	2,601,272	1,784	-	-	43,200	2,646,256
Head of Department : Environment affairs and waste	1,899,005	1,784	156,000	-	43,200	2,099,989
Head of Department: Real Estate and Facilities	1,959,005	1,784	96,000	129,911	43,200	2,229,900
Head of Department ; Roads and Transport	2,225,386	137,670	240,000	230,308	43,200	2,876,564
Head of Department : Water and Sanitation	1,783,776	152,985	180,000	139,398	43,200	2,299,359
Chief Risk Officer	2,380,684	120,373	72,000	-	43,200	2,616,257
Chief of Police	1,898,893	100,148	129,176	135,057	43,200	2,306,474
Secretary of Council	1,587,000	260,985	132,000	114,307	312,000	2,406,292
Head of Department: Support Mayors Office	2,114,976	1,784	-	135,414	43,200	2,295,374
Subtotal	52,839,738	2,623,403	3,334,213	2,670,244	1,525,620	62,993,218
	52,839,738	2,623,403	3,334,213	2,670,244	1,525,620	62,993,218

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					2020	2019	
29. Employee related costs (continued)	Senior Management Remuneration (Key Management) for period ended 30 June 2019	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	3,182,420	68,025	154,528	104,704	55,200		3,564,877
Chief Operating Officer (Contract end 30/11/2016)	-	-	-	70,336	-		70,336
Chief Operating Officer	2,155,152	358,185	165,636	-	43,200		2,722,173
Chief Financial Officer (Contract end 26/03/2019)	2,189,077	96,781	120,000	-	43,200		2,449,058
Chief Financial Officer (Appointed 01/06/2019)	201,773	149	15,000	-	3,600		220,522
Chief Financial Officer (Acting from 30/10/2018)	762,153	1,041	105,000	-	109,293		977,487
Head of Department: Internal Audit(Vacant from 1/08/2017)	-	-	-	116,703	-		116,703
Head of Department: Internal Audit (Appointed 01/03/2019)	784,150	53,685	30,000	-	14,400		882,235
Head of Department: Internal Audit (Acting from 01/07/2018)	765,532	73,190	160,000	-	180,757		1,179,479
Head of Department :Electricity & Energy	2,053,315	179,098	276,340	161,007	213,420		2,883,180
Head of Department: Strategy & Corporate Planning	1,731,495	214,446	170,820	49,908	43,200		2,209,869
Head of Department: Health	1,360,367	120,585	80,000	123,713	32,400		1,717,065
Head of Department: Customer Relations Management(Vacant from 1/09/2017)	-	-	-	134,960	-		134,960
Head of Department: Corporate & Legal	2,391,180	131,385	120,000	220,090	43,200		2,905,855
Head of Department: Communication	1,817,989	150,020	120,000	100,399	43,200		2,231,608
Head of Department:Human Resources	2,232,771	77,385	96,000	-	43,200		2,449,356

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29. Employee related costs (continued)						
Head of Department:	2,006,976	1,785	108,000	108,698	43,200	2,268,659
SRAC						
Head of Department : City Development	1,109,924	122,082	160,000	106,413	26,400	1,524,819
Head of Department : City Development(ap pointed 01/06/2019)	171,250	149	-	-	3,600	174,999
Head of Department : Community Safety(Contract expired 28/02/2017)	-	-	-	84,506	-	84,506
Head of Department : Human Settlement (Vacant from 01/03/2019)	1,223,744	64,410	104,000	103,604	28,800	1,524,558
Head of Department: Human Settlement (Appointed 01/06/2019)	221,333	149	12,000	-	3,600	237,082
Head of Department : Economic Development	2,305,404	1,785	180,000	130,277	43,200	2,660,666
Head of Department : ICT	1,779,165	128,844	180,000	-	43,200	2,131,209
Head of Department : Transport (Acting from 06/03/2018)	1,633,740	73,785	120,000	-	150,301	1,977,826
Head of Department : Transport(vacant 01/12/2018)	806,240	744	75,000	-	18,000	899,984
Head of Department : Environment (Vacant 01/07/2017)	-	-	-	115,953	-	115,953
Head of Department : Environment (Appointed 01/08/2018)	1,857,752	1,636	26,000	-	39,600	1,924,988
Head of Department : Enterprise Project Management	1,911,261	1,785	132,000	125,038	43,200	2,213,284
Head of Department: Real Estate and Facilities (Appointed 01/01/2019)	979,503	1,041	48,000	118,574	21,600	1,168,718
Head of Department : Roads and Transport	1,796,533	69,578	200,000	130,124	34,800	2,231,035

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29. Employee related costs (continued)		
Head of Department :		
Water Services	1,783,776	152,985
Head of Department :		
Fleet	695,408	744
Chief Risk Officer(Vacant 01/01/2018)	-	149
Chief of Police	1,887,436	100,148
Secretary of Council	1,587,000	260,985
Head of Department	2,114,976	1,785
Subtotal	<u>47,498,795</u>	<u>2,508,544</u>
	<u>47,498,795</u>	<u>2,508,544</u>
	<u>3,399,500</u>	<u>2,258,825</u>
	<u>3,399,500</u>	<u>2,258,825</u>
	<u>1,822,571</u>	<u>1,822,571</u>
	<u>57,488,235</u>	<u>57,488,235</u>

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30. Remuneration of councillors

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has full-time bodyguards.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

Related parties

Refer to note 42 for related party relationships.

June 2020	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	1,242,409	-	161,851	-	40,800	1,445,060
Speaker	439,602	173,739	411,206	65,940	40,800	1,131,287
Chief Whip	940,680	-	127,632	-	40,800	1,109,112
Members of the Mayoral Committee	3,559,705	1,002,372	5,728,189	392,854	408,000	11,091,120
Chairpersons Section 79 Members	4,682,282	1,173,304	10,077,818	535,319	656,400	17,125,123
Other councillors	46,607,239	8,002,884	42,906,774	3,418,052	8,387,962	109,322,911
	57,471,917	10,352,299	59,413,470	4,412,165	9,574,762	141,224,613
June 2019	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	1,242,409	-	107,841	-	40,800	1,391,050
Speaker	439,602	173,739	411,206	65,940	40,800	1,131,287
Chief Whip	940,680	-	86,543	-	40,800	1,068,023
Members of the Mayoral Committee	3,758,685	812,777	5,057,159	422,701	399,226	10,450,548
Chairpersons Section 79 Members	5,182,543	1,042,652	9,972,435	645,686	692,813	17,536,129
Other councillors	46,837,164	7,683,826	40,012,246	3,397,182	8,428,512	106,358,930
Total	58,401,083	9,712,994	55,647,430	4,531,509	9,642,951	137,935,967

31. Depreciation and amortisation

Property, plant and equipment	2,556,667,988	2,260,045,778
Investment property	10,006,704	7,685,447
Intangible assets	46,731,105	78,178,534
	2,613,405,797	2,345,909,759

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32. Derecognition and Impairments losses		
Impairments		
Derecognition of property, plant and equipment	40,108,382	52,845,249
The Impairment relates to assets being replaced as part of the capital implementation programme and other assets under construction projects which do not meet the subsequent capitalisation criteria.		
Derecognition of Investment properties	245,338	40,893,217
Properties transferred to beneficiaries		
Impairments of intangible assets	523,249	-
The impairment relates to old programmes derecognised due to the implementation of the ERP Programme		
Impairment of Heritage assets	2,916,850	-
impairment of heritage assets relates to monuments which were vandalised.		
	43,793,819	93,738,466
33. Finance costs		
External borrowings	897,570,823	616,104,617
Trade and other payables	-	47,751
Unwinding of interest on provisions and obligations	289,841,298	275,366,305
	1,187,412,121	891,518,673
34. Debt impairment		
Bad debts written off	257,129,312	5,734,031,525
Contribution to the debt impairment	3,702,413,924	4,136,551,991
Less: Bad debts written off against the provision	(257,129,312)	(5,734,031,525)
	3,702,413,924	4,136,551,991
35. Bulk purchases		
Electricity - Eskom	11,539,022,426	9,907,950,273
Water	3,542,420,443	3,347,272,578
Sewer purification	850,881,449	766,559,864
	15,932,324,318	14,021,782,715
36. Auditors' remuneration		
External audit fees	25,567,286	22,416,622
37. Contracted services		
Outsourced contracts- Security	455,243,144	445,936,883
Professional Services	554,945,193	517,003,873
Contracts	1,517,429,608	1,506,956,145
	2,527,617,945	2,469,896,901
38. Grants and subsidies paid		
Other subsidies		
Discretionary grant: sport and social support	27,858,411	60,306,103
Subsidy: Society for the Prevention of Cruelty to Animals (SPCA)	3,041,790	2,896,943
Discretionary grant: general	608,727,575	1,002,134,473
Excess consumption and other grants paid	770,655,489	647,235,587
Grants: education (external)	80,391,032	95,502,769
	1,490,674,297	1,808,075,875

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39. General expenses

Advertising	12,595,270	22,060,331
Animal care	2,611,133	2,181,926
Auditors remuneration	25,567,286	22,416,622
Awareness campaigns	-	8,092,984
Bank Charges	105,722,291	103,431,075
Community development and wellbeing	5,610,970	24,051,803
Consulting and professional fees	63,812,821	172,966,963
Consumables (including materials)	61,193,023	36,801,443
Corporate Gifts	269,653	368,423
Disaster management	439,290	436,377
Electricity own consumption	127,049,071	103,883,691
Entertainment	-	100,165
Fuel and oil	176,071,172	194,222,133
Human resource management	4,175,794	5,349,605
IT expenses	33,347,515	38,743,476
Insurance	89,285,968	95,549,818
Land management	63,038,968	52,937,504
Magazines,books and periodicals	1,811,848	1,334,582
Marketing	82,526,505	65,401,647
Postage	29,572,695	31,641,043
Printing and Stationary	29,759,711	36,006,031
Productions	-	44,798
Refreshments	3,591,652	5,841,349
Refuse	16,194,323	16,684,854
Rental	35,905,590	30,603,740
Repairs and maintenance costs and operating expenses	1,875,873,437	1,934,407,022
Rodent control	5,801,965	10,213,999
Service connections	18,054,000	6,536,168
Software expenses	43,109,650	21,464
Subscriptions and membership fees	18,541,769	13,862,134
Telephone and fax	24,301,450	37,697,119
Title deed search fees	90	724,028
Training	13,509,225	110,503,534
Travel - local	1,313,819	2,736,055
Travel - overseas	19,886,383	930,843
Uniforms	26,123,432	42,406,364
Venue expenses	8,394,104	18,889,583
Vehicle licences and hire cost	16,119,754	30,878,583
	3,041,181,627	3,280,959,279

40. Cash generated from operations

Deficit	(253,539,874)	(954,155,604)
Adjustments for:		
Depreciation and amortisation	2,613,405,797	2,345,909,609
Impairment deficit	43,793,819	93,738,466
Debt impairment	-	4,136,551,991
Increase in retirement benefit	71,217,000	104,790,000
Increase in provisions	97,983,378	18,007,372
Other non-cash items	(110,918,667)	330,049,841
Changes in working capital:		
Inventories	79,781,627	(342,552,908)
Receivables from exchange transactions	(687,692,353)	(767,814,948)
Receivables from non exchange transactions and Statutory	(301,270,953)	113,503,344
Consumer Receivables	-	(2,524,365,481)
Trade and other payables from exchange transactions	1,035,674,668	137,146,737
Unspent conditional grants and receipts	(466,991,202)	382,830,571
Increase in Consumer deposits	18,109,903	50,659,436
	2,139,553,143	3,124,298,426

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41. Contingencies

Contingent liabilities

Category A:Claims exceeding R 10 million.

Category B: All other claims

CONTINGENT LIABILITIES

Category A Claims:

The claim revolves around a dispute regarding payment for work done. CoE is defending the matter.	-	57,000,000
The claim for damages for an alleged repudiation of contract by CoE Plaintiff was unsuccessful in a bid for security services and now is challenging the award to the successful bidder and they are claiming damages. CoE is defending the matter.	36,000,000 123,872,435	-
Applicant has instituted legal action non-compliance with SCM processes and the amendment of bid specifications. CoE is defending the matter.	28,360,496	26,000,000
Applicant has instituted legal action demanding compensation for land that he is unable to use due to an offramp passing through the land. CoE is defending the matter.	-	91,027,040
Summonds issued for outstanding service charges	279,891,876	-
Dispute regarding over-payment of a service provider. CoE is defending the matter.	23,653,137	23,653,137
The company is objecting to the tariff CoE charge for electricity. CoE is defending the matter.	89,446,952	89,000,000
	581,224,896	286,680,177

Category B Claims

Other various claims against the City. CoE is defending these matters.

40,668,207	27,442,829
40,668,207	27,442,829

CONTINGENT ASSETS

Counter claim in respect of damages to CoE property

59,483,805 -

CoE is claiming for non-payment of electricity consumed. CoE is pursuing the matter. It was discovered that the company was overpricing the cost of maintenance on printing solutions. CoE is pursuing the matter.

- 31,636,343

Various claims issued by the City. CoE is pursuing these matters.

22,253,145 22,253,145

2,491,395 2,491,395

84,228,345	56,380,883
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42. Related parties

Relationships		
Accounting officer	Dr. I Mashazi refer to Accounting Officer's report	
Controlling entity	City of Ekurhuleni	
Controlled entities	Brakpan Bus Company SOC Ltd (BBC) 7 Ekurhuleni Development Agency (Dormant) East Rand Water Care Company NPC (ERWAT) Germiston Phase II Housing Company SOC Ltd (EHC)	
Close family member of key management	For details of members of key management, see note below	
Members of key management	and for remuneration refer note 29.	

Related party balances

Amounts included in trade receivable and consumer debtors regarding related parties - municipal entities

East Rand Water Care Company, NPC	8,111,632	10,859,106
Brakpan Bus Company SOC Ltd	33,133,889	21,698,150
Germiston Phase II Housing Company SOC Ltd	12,898	258,065

Amounts included in trade payable regarding related parties - municipal entities

East Rand Water Care Company, NPC	233,140,347	37,395,295
Germiston Phase II Housing Company SOC Ltd	464,226	7,935,347
Brakpan Bus Company SOC Ltd	-	5,000,000

Related party transactions

Sales to related parties - municipal entities

East Rand Water Care Company, NPC	89,697,938	86,854,861
Germiston Phase II Housing Company SOC Ltd	8,426,671	6,423,360
Brakpan Bus Company SOC Ltd	110,000	110,000

Purchases from related parties - municipal entities

East Rand Water Care Company, NPC	918,467,848	841,585,503
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Grants to related parties - municipal entities

Brakpan Bus Company SOC Ltd	9,000,000	5,000,000
Germiston Phase II Housing Company SOC Ltd	22,800,000	75,121,603
East Rand Water Care Company, NPC	143,657,673	68,164,478

Development contributions to related parties - municipal entities

East Rand Water Care Company, NPC	37,867,723	36,397,723
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Guarantees issued as required by the MFMA on behalf of municipal entities

COE guaranteed the Nedbank loan to ERWAT, with a carrying value of R404,367,914 (2019: R447,970,486). The guarantee shall expire at 15h00,10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. ERWAT has agreed to cede to COE claims against its book debtors, in the event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of COE all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by COE in favour of Nedbank Ltd as guarantee for the loan remains in effect.

No contingent liability has been raised for this guarantee as the City believes that the entity is financially sound.

43. Comparative figures

Certain comparative figures have been reclassified as a result of the Municipal Standard Chart Of Accounts (mSCOA).

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44. Financial instruments disclosure

Exposure to currency, interest rate, liquidity and credit risk arises in normal course of the City's operations. This note presents information about the City's exposure to each of the above risks, policies and processes for measuring and managing risk, as well as the City's management of capital. Further quantitative disclosures are included throughout these financial statements.

The accounting policy for financial instruments was applied to the following statement of financial position items:

2020

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	5,518,649,498	-	5,518,649,498
Other receivables from non-exchange transactions	5,113,059	-	5,113,059
Statutory receivables	863,950,264	-	863,950,264
Cash and cash equivalents	1,644,224,892	-	1,644,224,892
Other investments (listed and unlisted)	-	4,000,000	4,000,000
Other investments	2,469,622,604	-	2,469,622,604
Long term receivables	3,345,200	-	3,345,200
	10,504,905,517	4,000,000	10,508,905,517

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	7,144,349,852	7,144,349,852
Long term liabilities	9,962,943,049	9,962,943,049
	17,107,292,901	17,107,292,901

2019

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	4,612,811,982	-	4,612,811,982
Other receivables from non-exchange transactions	467,939,669	-	467,939,669
Cash and cash equivalents	3,430,881,905	-	3,430,881,905
Other investments (listed and unlisted)	-	4,000,000	4,000,000
Other investments	2,085,662,816	-	2,085,662,816
Long term receivables	3,329,215	-	3,329,215
	10,600,625,587	4,000,000	10,604,625,587

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	6,506,310,406	6,506,310,406
Long term liabilities	8,681,348,656	8,681,348,656
	15,187,659,062	15,187,659,062

Financial instruments in Statement of financial performance

2020

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	661,309,266	661,309,266
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1,187,412,121)	(1,187,412,121)
Impairment loss	(2,657,176,294)	(2,657,176,294)
	(3,183,279,149)	(3,183,279,149)

2019

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Financial instruments disclosure (continued)

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	786,635,124	786,635,124
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(891,518,673)	(891,518,673)
Impairment loss	(2,439,648,075)	(2,439,648,075)
	(2,544,531,624)	(2,544,531,624)

45. Risk management

Capital Risk Management

The City's objectives, when managing capital, are to safeguard the City's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the City consists of debt, which includes the borrowings disclosed in note 16 and cash and cash equivalent disclosed in note 15.

Consistent with others in the industry, the City monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the City manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio 2020 and 2019 respectively are as follow:

Other financial liabilities	(9,962,943,049)	(8,681,348,656)
Less: Cash and cash equivalent	1,644,224,892	3,430,881,905
Net Debt	(8,318,718,157)	(5,250,466,751)
Total equity	47,757,228,338	48,010,744,558
Total capital	39,438,510,181	42,760,277,807

Financial risk management

The City's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The City's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the City's financial performance.

Risk management is carried out by the risk management department under policies approved by the accounting officer. The City's treasury identifies, evaluates and hedges financial risks in close co-operation with the City's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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45. Risk management (continued)

Liquidity risk

The City's risk to liquidity is a result of the funds available to cover future commitments. The City manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analysis the City's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Interest rate risk

The City's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the City to cash flow interest rate risk. Borrowings issued at fixed rates expose the City to fair value interest rate risk. The City's policy is to maintain approximately 100% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk is as follows:

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years
Consumer debtors	-	5 963 553 255		
Long term receivables	variable %	204 835	409 670	2 730 695

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five years
Long term and other liabilities	Various	2 338 021 378		1 457 898 957	6 167 022 715

Sensitivity analysis

Financial assets

Long-term, receivables

As at 30 June 2020, should the average interest rate at that date increase by 1%, with all other variables remaining the same, the impact on the statement of financial position would have been R33,354 with the opposite effect if the interest rate had been 1% lower.

Investments

As at 30 June 2020, should the average interest rate at that date increase by 1%, with all other variables remaining the same, the impact on the statement of financial position would have been R22,663,889 with the opposite effect if the interest rate had been 1% lower.

Financial liabilities

Changes in the interest rate as at 30 June 2020 would have had no impact on the statement of financial performance, as all borrowings are at a fixed interest rate.

Currency risk

The City is not exposed to foreign-currency risk.

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45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash & cash equivalents, derivative financial instruments and trade debtors. The City only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Financial instrument	Controlling entity - 2020	Controlling entity - 2019
Other Investments	2,469,622,604	2,085,662,816
Receivables from exchange	5,518,649,498	4,612,811,982
Receivables from non exchange	5,113,059	467,939,669
Statutory receivable	863,950,264	-
Cash and cash equivalents	1,644,224,892	3,430,881,905
Listed and Unlisted shares	4,000,000	4,000,000
	10,505,560,317	10,601,296,372

The City has a R4,000,000 investment in unlisted shares, which is the exposure to price risk. The price risk on this investment cannot be determined due to the fact that the shares are not listed and therefore unknown.

46. Going concern

This annual financial statements have been prepared on a going concern basis.

Management has reviewed the City's cash flow forecast for the period ended 30 June 2020 and the budget for the next financial year budget is fully funded,

in the light of this review and the current financial position, management is satisfied that the City has, or has access to, adequate resources to continue in operational existence for the foreseeable future. The City revised its budget for the the following year due to the impact of the Covid-19 pandemic and to ensure that its operating activities will be within its financial measures.

Covid 19 - Impact

The City has assessed the impact of Covid-19 pandemic on the financial position and liquidity requirements. A special budget adjustment was passed on 25 June 2020 to address the impact in the reduction of the consumption of services and fallen collection levels.

The City had to reduce revenue income by R1,3 billion (R973m of operating revenue and R327m of own revenue funded capital budget) and also the operating expenditure was reduced by the same amount. National Treasury approved the relaxation for the utilisation of capital grants for financing operating expenditure due to the declinein revenue and collection rates. This approval did not results in additional expenditure or new procurement activities but a change in funding process.

The City assessed the impact of the Covid-19 on its debtors collection process and increased the provision allocation for bad debts for accounts deemed to high risk of default. This process will be continuously monitorised in the current year. Management has considered all risk factors, collections rates, credit ratings & downgrades and other available information in assessing adequacy of provisions and impairments process at year end..

The City has spent on Covid19 relief measures as follows:

Provision of wall mounted sanitizers/ wash soap, deep cleaning and 25 345 887 disinfection of facilities

Procurement of personal protective equipment 19 381 771

The budget process for 2021 was reduced due to decrease in consumption of services. The City has put measures in place to address the economic depression of its residence and relief measures to them.

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47. Events after the reporting date

There were no subsequent events affecting this annual financial statements at the reporting date.

Irregular expenditure of R463,702,233 was approved by Council on 30 September 2020 for write off. This write off relates to chemical toilets, installation & commissioning of data equipment, repairs & maintenance of low & medium voltage underground cable networks and maintenance of various CoE buildings.

48. Unauthorised, Fruitless, Wasteful and Irregular expenditure

Items of unauthorised, irregular and fruitless and wasteful expenditure are referred to MPAC for further investigations and determination of appropriate steps to be taken. During the current year the Council approved R12,157,965 (2019: R210,218,230) for irregular expenditure and R5,279,993 (2019: R2,025,957) for fruitless expenditure for write-off. The remaining amounts are still under investigation by the MPAC and other organs of state. No resolutions were not yet available.

Irregular expenditure

Opening balance		1,717,905,791	1,515,117,725
Add: Expenditure identified for the year		-	255,814,710
Add: Expenditure identified in the current year, relating to prior years		3,399,137	157,191,586
Less: Amounts ratified/approved as irrecoverable by council and written off		(8,818,872)	(209,865,580)
Less: Amounts ratified/approved by council and recovered		-	(352,650)
Less: Amounts ratified/approved as irrecoverable by council and written off relating to prior periods		(3,339,093)	-
		1,709,146,963	1,717,905,791

Fruitless and Wasteful expenditure

Opening balance		154,292,481	156,318,438
Add: Expenditure identified in the current year, relating to prior years		1,958,267	-
Less: Amounts ratified/approved as irrecoverable by council and written off		-	(1,401,986)
Less: Amounts ratified/approved by council and recovered		-	(623,971)
Less: Amounts ratified/approved as irrecoverable by council and written off relating to prior periods		(5,279,993)	-
		150,970,755	154,292,481

June 2020

Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
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June 2020

Identified in the current year relating to prior years:

Department	Description	Classification	Amount
Environmental Resource & Waste management EMPD	Contravention of SCM Policy	Irregular	3,399,137
EMPD	Value for money not obtained	Fruitless	1,958,267

June 2019

Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
ICT	Section 110:Telkom not classified as organ of State	Irregular	4,624,829
Water & Sanitation	Contravention of SCM Policy	Irregular,	251,189,881

255,814,710

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48. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

June 2019

Identified in the current year relating to prior years:

Department	Description	Classification	Amount
Human Settlement	Contravention of SCM Policy	Irregular	1,117,153
Water & Sanitation	Contravention of SCM Policy	Irregular	134,031,567
Human Settlement	Contravention of SCM Policy	Irregular	4,807,974
Finance	Bidders with Non Tax compliant	Irregular	15,526,658
Finance	Contravention of SCM Policy	Irregular	199,999
ICT	Value for money not obtained	Irregular	1,508,235
			<u>157,191,586</u>

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49. Additional disclosure in terms of Municipal Finance Management Act

June 2020 Tenders awarded to family members	No	Contract number	Supplier name	Relation	Employee name	Employee designation	Amount R0,00
	1	PT 05/2019	Seletje Construction &Management CC	Spouse	P M Lekgwati	Senior clerk	10,950,665
	2	PS-IA 29/2019	PWC	Son	W Valentin	Executive Manager	-
	3	A-WMS 13/2019	LMM Training and Development CC		K Mangwane	Senior clerk	-
	4	A-WMS 06-2019	Mohau BRM Projects (Pty) Ltd,	Spouse	Ngubane: Millicent Disebo	"EMPDSuperintendent"	11,995,915
	5	PS-WMS 25-2019	BVi Consulting Engineers (PTY) LTD,		Viljoen: Philippus Karel	"Environmental DevelopmentPROJECT MANAGER"	6,992,382
	6	A-ERM 08-2019	Humelela Maintenance Services CC		Maluleke: Vongani Walter	"Environmental ResourcesMetro ParksHORTICULTURIST "	5,497,735
Subtotal							35,436,697
							35,436,697

Zero amounts are contracts awarded that are rate based

June 2019 Tenders awarded to family members	No	Contract number	Supplier name	Relation	Employee name	Employee designation	Amount R0,00
	1	A-DEMS 01/2018	Altech Alcom Matomo	Son	R Van Vuuren	Executive Manager	33,061,770
	2	A-WMS 05/2018	LMM Training and Development	Spouse	K Mangwane	Senior clerk	51,176,160
	3	A-RS 05/2018	Seletje Construction &Management CC	Spouse	P M Lekgwati	Senior clerk	3,048,260
	4	A-RE 09/2018	Siyaphambili	Spouse	M P Motai	Library assistant	12,000,000
	5	C-ICT 03/2019	IMQS Software	Son	W Valentin	Executive Manager	3,129,441
Subtotal							102,415,631
							102,415,631

June 2020 awarded to family members of staff	Quotations	No	Supplier name	Relation	Employee name	Employee designation	Amount R0,00
		1	SEBABATSO CATERERS	Wife	Dhladhla: Michael Moegeni		1,012,120
		2	ZIMEMO TRADING AND PROJECTS CC	Husband	Nkoe: Nthabiseng		535,000
		3	AMAZIMA TRADING CC	Spouse	Mzima: Seipati Meisie		28,570
		4	CHUK'ZA (PTY) LTD	Brother	Kgole: Phuti Maria		104,486

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

5	ENYATI PROJECTS CC	Husband	Smith: Myrtle Deorber "Luthuli: Zanele Rona(Ndlovu: Zanele Rona)"	650,169
6	ETN TRADING ENTERPRISE CC	Husband		26,162
7	KAOFELA TRADING CC	Wife	Steyn: Roelof Petrus Gerhardus	29,250
8	MANKENA MASELAEO BUSINESS ENTERPRISE (PTY) LTD	Husband	Sibisi: Susan	150,770
9	MDIBANE TRADING ENTERPRISES CC	Wife	Nolutshungu: Chase Mokhethi	90,030
10	MJIKIJELA TRADING ENTERPRISE CC	Husband	Mthimkulu: Shirley	141,535
11	NMVL TRADING AND PROJECTS CC	Spouse	Mashele: Ntsako Morewell	88,401
12	NNUKU BUILDING CONSTRUCTION CC	Sister	Mhlahlo: Dieketseng Pertunia	27,035
13	NSELE YAMANGWE PROJECTS CC	Daughter	Zwane: Lenhle	96,300
14	SAMUTEBO TRADING (PTY) LTD	Husband	Sekhu: Mahlatse Virginia	338,645
15	SEDIKANO TRADING AND CONSTRUCTION CC	Aunt	Msibi: Mzwakhe Freddy	36,610
16	SELHLO CONSTRUCTION AND PROJECTS CC	Wife	Mokoka: Sello Clarence	100,965
17	SIEDENT TRADING CC	Husband	Jonischkeit: Madelein	14,168
18	SIKITI LANDSCAPE MANAGEMENT (PTY) LTD	Spouse	Masondo: Patrick Bhekani	226,189
19	SIZOLWABO TRADING AND PROJECTS (PTY) LTD	Wife	Kgatuke: Mochabo Johnson	269,520
20	SMIVO TRADING ENTERPRISE (PTY) LTD	Wife	Smith: Cedil	51,500
21	WJS MAINTENANCE (PTY) LTD	Wife	Schoonbee: Andries Jacobus	110,820
22	YOLO EVENTS MANAGEMENT (PTY) LTD	Spouse	Masondo: Patrick Bhekani	192,874
23	ZIMEMO TRADING AND PROJECTS CC	Husband	Nkoe: Nthabiseng	51,790
-				-
				4,372,909

Contributions to organised local government

Current year subscription / fee	14,876,905	13,585,000
Amount paid - current year	(14,876,905)	(13,585,000)

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	8,737,230	6,153,851
Current year subscription / fee	25,000,000	25,000,000
Amount paid - current year	(25,567,286)	(22,416,621)
	8,169,944	8,737,230

PAYE and UIF

Current year subscription/fee	1,493,591,888	1,349,217,405
Amount paid - current year	(1,493,591,888)	(1,349,217,405)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	2,257,423,786	2,111,735,465
Amount paid - current year	(2,257,423,786)	(2,111,735,465)
	-	-

VAT

VAT paid during the year	35,656,902	29,602,295
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2020:

30 June 2020	Highest outstanding amount	Ageing in days
Mahonko KR	4,025	150
Mokhoana L	1,310	330
Ngobese AK	42,322	750
Nkosi BN	4,594	210
Nxangani NE	4,545	180
Shezi KE	14,274	990
	71,070	2,610

30 June 2019	Highest outstanding amount	Ageing in days
Shezi KE	28,217	1,170
Ngwenya ZG	3,015	180
Ngobese AK	29,677	1,230
Nxangani NE	8,533	600
	69,442	3,180

During the year the following Councillors had arrears, where their accounts were outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
Bambeni T	3,983	120
Madlala KP	10,613	120
Mahonko KR	4,025	150
Mafuyeka FN	5,112	210
Mokhoana L	4,816	210

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Mpya LC	5,737	120
Ngoasheng PL	6,041	180
Ngobese AK	32,559	750
Ngobese AK	9,857	150
Nkosi BN	7,138	120
Nxangani NE	11,694	750
Serumula MC	7,575	240
Reid B	2,892	150
Shandu V K	1,884	120
Shezi K E	28,217	1,170
	142,143	4,560

30 June 2019

	Highest outstanding amount	Aging (in days)
Nxangani NE	8,533	600
Mabanga V	6,462	360
Mkhize A L	29,677	1,230
Shabalala E N	2,770	120
Motaung A	21,601	390
Ngwenya ZG	3,015	180
Mashigo AM	5,651	150
Hanong AL	2,608	120
Mashego R	3,098	120
Lotriet CJ	1,602	120
Makopo TS	5,351	120
Shando VK	1,721	120
Mkhize A L	4,989	150
Mnisi SL	1,825	180
Mvila SJ	1,638	120
Sarila M F	2,014	270
Shezi K E	49,594	1,830
	152,149	6,180

50. Utilisation of long-term liabilities reconciliation

Outstanding long-term liabilities beginning of the year	8,655,191,687	6,000,077,815
Redemption of loans	(374,039,037)	(420,172,767)
New loans	1,650,000,000	3,000,000,000
Interest accrued	188,740,005	75,286,639
	10,119,892,655	8,655,191,687
Used to finance property, plant and equipment: Opening balance	(7,243,924,137)	(4,700,077,815)
Redemption of loans	374,039,037	420,172,767
Capital financed from external loans for the year	(2,263,554,814)	(2,888,732,450)
Interest accrued	(188,740,005)	(75,286,639)
Unspend long term liabilities	797,712,736	1,411,267,550

Cash was invested for the repayment of long-term liabilities for the year	2,197,566,525	1,899,477,077
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sinking funds (investments) were established to ensure that long-term liabilities can be repaid on redemption date.

The new loan raised relates to capital expenditure re-financed in the previous financial year

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

SCM regulation (par. 36) of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	-	5,462,487
Sole supplier	-	40,240,866
Other - Impractical	4,080,000	1,113,937,630
	4,080,000	1,159,640,983

During the year the accounting officer ratified minor breaches in line with SCM regulation 36(2) R0,00 (2019:R0)

Extentions of contracts incude inter-alia the following amounts:

2020

Other services	R36,819,927
Consultants	R171,544,532
Maintainance and other related services	R12,967,522

2019

Other services	R16,364,108
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52. Unaccounted Electricity And Water

Electricity	30 June 2020 Units	30 June 2020 Value	30 June 2019 Units	30 June 2019 Value
Units purchased	10,283,917,639	13,322,662,271	10,689,059,923	9,907,950,273
Units sold	(8,831,344,894)	(11,440,875,894)	(9,411,717,262)	(8,723,950,215)
	1,452,572,745	1,881,786,377	1,277,342,661	1,184,000,058

Unaccounted electricity (Value)

Technical loss	606,751,141	786,037,074	630,654,536	584,569,066
Non-technical loss	845,821,605	1,095,749,303	646,688,125	599,430,992
	1,452,572,746	1,881,786,377	1,277,342,661	1,184,000,058

Unaccounted electricity (%)

Technical loss	5.90 %	5.90 %	5.90 %	5.90 %
Non-technical loss	8.22 %	8.22 %	6.05 %	6.05 %
Total loss %	14.12 %	14.12 %	11.95 %	11.95 %

Water

Water	30 June 2020 Units	30 June 2020 Value	30 June 2019 Units	30 June 2019 Value
Opening balance	1,086,111	10,223,389	1,296,566	10,885,929
Purchases	348,544,955	3,581,211,279	355,142,737	3,345,996,430
Less: closing balance	(829,554)	(8,419,976)	(1,086,111)	(10,223,389)
Units sold	(243,270,648)	(2,499,261,997)	(248,983,168)	(2,344,653,335)
	105,530,864	1,083,752,695	106,370,024	1,002,005,635

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

52. Unaccounted Electricity And Water (continued)

Unaccounted water (Value)

Techincal loss	15,792,246	162,186,366	53,302,978	502,114,060
Non-technical loss	89,482,061	921,566,328	53,067,046	499,891,575
	<u>105,274,307</u>	<u>1,083,752,694</u>	<u>106,370,024</u>	<u>1,002,005,635</u>

Unaccounted water (%)

Techincal loss	15.00 %	15.00 %	15.00 %	15.00 %
Non-technical loss	15.26 %	15.26 %	13.45 %	13.45 %
	<u>30.26 %</u>	<u>30.26 %</u>	<u>28.45 %</u>	<u>28.45 %</u>

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

53. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	<u>3,862,261,469</u>	<u>4,694,555,762</u>
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Not yet contracted for and authorised by accounting officer

• Other financial assets	<u>938,202,241</u>	<u>2,545,371,335</u>
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Total capital commitments

Already contracted for but not provided for	<u>3,862,261,469</u>	<u>4,694,555,762</u>
Not yet contracted for and authorised by accounting officer	<u>938,202,241</u>	<u>2,545,371,335</u>
	<u>4,800,463,710</u>	<u>7,239,927,097</u>

Total commitments

Total commitments

Authorised capital expenditure	<u>4,800,463,710</u>	<u>7,239,927,097</u>
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This committed expenditure relates to the acquisition of property, plant and equipment for the 2019/2020 financial year (Approved Capital Expenditure Programme) based on the projects values as approved by Council for the City's Capital Budget programme for the following year for which suppliers contracts are in place. These commitments will be financed by appropriated grants, internally generated funds (revenue or accumulated surplus), and other borrowings options where applicable.

Commitments not yet contracted for and authorised, relate to capital projects as approved by Council on the City Capital Budget which there is no contracts in place at the end of the financial year.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	<u>-</u>	<u>31,486,536</u>
- in second to fifth year inclusive	<u>-</u>	<u>542,786</u>
	<u>-</u>	<u>32,029,322</u>

Operating lease payments represent rentals payable by the City for certain of its office buildings. Leases are negotiated for periods ranging from one year to five years, for office buildings. The rentals escalate on average at 7.00% (2019: 8.00%) for office buildings.

The actual lease contract amounts range between R6,000 and R642,118 (2019: R6,000 and R642,118) per month on the office buildings.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	<u>8,690,441</u>	<u>7,910,246</u>
- in second to fifth year inclusive	<u>24,142,530</u>	<u>26,452,846</u>
- later than five years	<u>18,436,775</u>	<u>20,473,834</u>
	<u>51,269,746</u>	<u>54,836,926</u>

Certain of the City's property generates lease rental income. The majority of these leases are on a month to month basis. Lease periods range from month-to-month up to 99 years. Monthly lease payments range from R0.08 (2019: R1) (social benefit) up to R318,608 (2019: R280,000).

54. Change in estimate

Property, plant and equipment

Economic entity

Useful lives review for 2019/2020 had the following impact:

Depreciation expense before remaining useful lives review: R83,794,206

Depreciation expense after remaining useful lives review: R119,448,028

Future increase in depreciation due to review: R35,653,822

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

54. Change in estimate (continued)

Discount rate

The discount rate has changed to 10.81% (2019: 10.68%). The impact of this change has been disclosed in the relevant note, where applicable.

55. Prior period errors

2019

The Intangible assets increased due to the reversal of the accumulated impairment recognised previously due to incorrect useful lives on ERP modules that were not in line with the previous accounting system, the useful lives were amortised over 4 years instead of 20 years for similar programs used by the city, which led to reduction of amortisation of R56,327,627. Furthermore, part of the development costs previously derecognised were capitalised as they are part of the development process.

Assets under construction decreased due to the corrections of completed projects previously partially capitalised as a result of additional project management costs and other consumer price adjustments costs incurred after the completion of the construction phase or where there were disputes on contract variations. These corrections do not have an impact on assets gross values but result in additional accumulated depreciation for prior period.

Other receivable from non-exchange decreased due to proceeds from the disposal of assets recognised as a receivable, but when the payment was received in previous year, it was not deducted from the receivables, correction of court claims raised as receivables previously.

Inventory, increased due to additional transfer/ capitalisation of other assets under construction.

The decrease in Investment property and PPE relates to the depreciation of correction of prior period capitalisation, including capitalisation of projects management costs incurred after the construction phase.

The increase in trade payables and staff costs related to the accrual of the 13th cheque bonus for the period worked till year end.

Reclassification between bulk purchases and general expenses relates to City electricity consumption on its own buildings.

The net impact of these corrections lead to decrease in the accumulated surplus as previously reported.

The correction of the error(s) results in adjustments as follows :

Statement of Financial Position	Balance as previously reported	Balance restated	Adjustment
Investment property	504,387,320	502,247,151	(2,140,169)
Property, plant and equipment	55,215,407,492	55,126,113,172	(89,294,320)
Intangible assets	846,255,508	990,116,508	143,861,000
Heritage assets	69,033,511	69,001,911	(31,600)
Other receivables from exchange transactions	5,534,884,519	5,455,699,832	(79,184,687)
Inventory	1,330,427,952	1,362,355,865	31,927,913
Trade and other payables from non exchange transactions	(7,350,686,903)	(7,511,193,794)	(160,506,891)
Closing Accumulated Surplus 2019	(48,166,111,500)	(48,010,742,746)	(155,368,754)
Statement of Financial Performance			
Derecognition and Impairment loss	(2,402,237,236)	(2,345,909,609)	56,327,625
Employee costs	(8,119,521,321)	(8,280,628,317)	(161,106,996)
Bulk	(14,125,666,406)	(14,021,782,715)	103,883,690
General Expenses	(3,174,339,122)	(3,280,959,279)	(103,883,690)
Deficit for the year	(849,376,233)	(954,155,604)	104,779,369
Notes (Significant disclosures) to the financial statements	-	-	-
Assets Under Construction: PPE	8,211,509,115	6,261,978,405	(1,949,530,710)
Assets under Construction: Intangibles	204,988,949	327,618,921	122,629,972
Assets under Construction: Investment properties	85,381,790	13,563,059	(71,818,691)

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

56. Accounting by principals and agents

The City is a party to a principal-agent arrangement. The City act as an agent for the department, whereby it administer the registration of vehicles and collection of funds thereof, on behalf of the Gauteng department of transport within the City's jurisdictions.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R246,003,581 (2019: R-).

Additional information

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

Reconciliation of the carrying amount of payables

All categories

Amount collected on behalf of the principal	903,503,204	-
Amounts transferred to the principal	<u>(805,646,693)</u>	-
	<u>97,856,511</u>	-

All categories

Cash paid on behalf of the principal	903,503,204	-
Amounts transferred to the principal	<u>(805,646,693)</u>	-
	<u>97,856,511</u>	-

57. Housing arrangements

Amount of contract revenue recognised in revenue	(78,675,730)	(11,602,555)
Aggregate amount of costs recognised in surplus	78,675,730	11,602,555
Amount received in advance recognised under grants payables	-	-
	418,666,047	505,738,586
	<u>418,666,047</u>	<u>505,738,586</u>

The Gauteng department of housing appointed City as project developer whereby the city undertakes the construction of the houses itself or appoints a sub-contractor to undertake the construction on its behalf. All funds received in this regards are subjected to DORA conditions. No commission is earned by the city on implementation of this programme.

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

58. Budget differences

1. 2020

A. ADJUSTMENT BUDGET PROCESS

The City of Ekurhuleni had two adjustment budgets during the 2019/20 financial year.

The first adjustment budget was approved in a Council meeting held on the 30th January 2020 and the 2nd special adjustment budget was approved in a meeting held on the 28th May 2020. Below are the summaries of the adjustments.

First adjustment budget (30th January 2020)

Revenue

The operating revenue shows a net increase of R1.07 billion due to the following factors:

- The interest on external investments of R3.0 million is removed from Human Settlements Department as it is budgeted for under Finance Department;
- Additional revenue of R465.6 million is recognised from traffic fines (to bring the total revenue from this source to R600.0 million) due to recommendations from the Auditor-General on the accounting treatment of this item; and
- Transfers and subsidies (grants) show a net increase of R609.7 million.
 - Energy Efficiency Demand Management System Grant (EEDMS) - has a reduction of R914,550, as part of R12.1 million on electrification programme, due to the allocation being gazetted as withdrawn after the budget was already adopted;
 - Finance Management Grant (FMG) - R396,078 increase was approved as a roll-over;
 - HIV/AIDS- R760 - this was an immaterial roll-over amount;
 - Sector Education and Training Authority (SETA) - this amount of R4,729,237 was an automatic roll-over as the unspent funds do not form part of roll-over applications;
 - Sports, Recreation, Arts and Culture (SRAC) Provincial Grant – R282,535 was approved as a roll-over and R1,500,000 was an additional allocation;
 - Public Transport Network Grant (PTNG) – R94,695,726 – this amount is a transfer from Capex to Opex;
 - Human Settlements Development Grant (HSDG)- R 497,341,770 was approved as a roll-over and appropriated through a virement. This amount was transferred to the City after the budget was approved in May 2019;
 - Urban Settlement Development Grant (USDG) - grant shows a net adjustment of (R11,904,479) due to the following :
 - Reduction of R38,640,000 – Ekurhuleni Housing Company (EHC) surrendered the funds back to Human Settlements;
 - An addition of R24,235,521 -required by ERWAT to fund the water treatment plants; and
 - An addition of R2,500,000 - required for capacity for the implementation of USDG projects.
 - Ekurhuleni Housing Company receives a grant of R12.0 million from Provincial Social Housing (SHRA).

Expenditure

The operating expenditure increased from R38.8 billion to R39.8 billion, an increase of 1.45%. The major items are:

The employee costs decrease by a net of R23.0 million due to the following:

- The Department of Environment and Resource Management has identified savings from funded positions to fund its additional request amounting to R12.0 million and the reduction of expenditure to fund debt impairment amounting to R16.0 million; and
- The BBC requested a grant of R5.0 million to fund its shortfall on employee related costs;
- Debt impairment increases by R789.5 million to cover the additional revenue from traffic fines as well as provision for bad debts on uncollectable assessment rates due to the decision by the Property Rates Appeal Board to reduce the values of some properties;
- Depreciation and asset impairment increase by R1.1 million to cover for end of year accounting transactions;
- Other materials reduce by R168.9 million based on the level of spending by departments over the past six months;
- Contracted services increase by a net of R423.0 million due to Increases in additional requests on security, cleaning, roads and ICT infrastructure maintenance;
- Transfers and subsidies to external parties (entities in this case) show a net reduction of R23.4 million due surrendering of R38.6 million by EHC, EHC tax liability of R6.0 million, movements of R35.0 million between departments (Council General and Legal Services) and transfer of R24.2 million to ERWAT; and
- Other expenditure has a net increase of approximately R61.5 million. This is a combination of software licenses, operating leases and travel and accommodation.

Capital Budget

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

58. Budget differences (continued)

The adjustments to the capital budget of the **City and its entities** results in a net decrease of **R609,525,974**. The proposed adjustment is a combination of:

- Re-allocations of funds between projects;
- Rescheduling of budgets re-scheduled over the MTREF period in line with the projects' readiness;
- Allocations from the City to its entities; and
- Allocation of 2018/19 unspent grants approved for roll over to 2019/20.

The following were adjustments in grants from National and provincial government

- EEDMS - grant is reduced to R0 – this is because of National Treasury withdrawing the fund. The gazette was published after the budget had been approved in May 2019.
- Due to refinancing between External loans and Revenue, the former was reduced by R157 million while the latter increased by the same amount;
- NDPG – is increased by R29 million as per the DoRA mid-year adjustment;
- SRAC Provincial grant – This grant received a roll-over of R163,989 from the 2018/19 financial year;
- PTNG - Transfer to Opex as per grants conditions; and
- SHRA – Allocation of R1.5 million to EHC.

Second Special Adjustment budget (28 May 2020)

The special adjustment budget was triggered by the following factors;

- The declared national state of disaster and the **subsequent lockdown resulted in material under collection of revenue**;
- Stopping of part of capital grant allocations to municipalities issued by National Treasury in special gazette number 43180 dated 30 March 2020; and
- Approvals obtained from National Treasury and the national Department of Transport to reallocate part of the capital conditional grants from capital to operating budget. This is to assist the City to alleviate the impact of COVID-19.

Revenue

- The decline in billed revenue on industrial and commercial consumers of water, electricity and, sanitation amounting to R873.0 million;
- Revenue from rental of the City's facilities like lapas, swimming pools and lakes is not expected to be billed as social and community facilities are closed to comply with physical distancing. The reduction is R12.8 million. The remaining revenue is still expected to be collected from rental of the City's houses and flat in which employees reside;
- Fines and penalties are expected to decline by R31.2 million. The remaining revenue will come from speeding cameras;
- Licenses and permits are expected to decline by R55.8 million as they were just recently permitted in government gazette 43192 issued on 7 May 2020; and
- Government grants increase by R384.0 million from the R323.0 million of USDG and R61.0 million of PTNG that are moved from the capital budget to the operating budget.

The net effect is a **decline of R588.8 million in operating revenue**

Expenditure

- The employee costs decrease by a net of R293.7 million due to the impact of the lockdown on the budgeted revenues of the City;
- An upward adjustment of R3.1 million was made to cover the increase in remuneration of Councillors for 2019/20 FY;
- Increase in provision for debt impairment of R620.0 million due to the decline in service charges revenue;
- Decrease in finance charges amounting of R227.0 million as the external loans will be taken late in the financial year;
- Bulk purchases (water and electricity) decline of R620.6 million as the revenue therefrom has declined;
- Other materials decline by R27.4 million. Procurement is limited to essential services as allowed by the lockdown regulations. The reduction in this line item is not significant as it was compensated by the additional revenue from the USDG and PTNG;
- Contracted services is increased by R8.0 million to cover the costs of COVID-19 and will be covered by part of the USDG and PTNG transfers from capital to operating budgets;. As with other materials, procurement is limited to essential services as allowed by the lockdown regulations; and
- Other expenditure on items such as entertainment for senior managers, laundry service, printing and publications and travelling and accommodation reduce by R46.5 million. These items are not part of essential services.

Capital Budget

The City's capital budget is undergoing special adjustments due to the following factors;

- Stopping of the R120.0 million portion of the USDG by National Treasury;

City of Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

58. Budget differences (continued)

- Reallocation of R323.0 million of USDG from capital to operating budget to fund COVID-19 operational expenditure;
- Reallocation of R6.0 million of PTNG from capital to operating budget to also fund COVID-19 related operational expenditure; and
- Reallocation of R55.0 million of PTNG to fund operational requirements for Integrated Public Transport Networks; and
- Downgrading of the country's grading to "junk investment" status, meaning that external borrowings will be obtained at a higher cost, necessitating a decrease in the amount of external borrowings

B. THE FOLLOWING REASONS ARE FOR VIREMENTS PROCESSED POST THE FINAL ADJUSTMENT BUDGET

Expenditure

i) Employee related costs

Reduction on employee related costs as the payment holiday was granted by SARS on Skills Development Levy.

ii) Transfers and grants

Transfers and subsidies were increased as additional funds were required for the burial of indigents.

iii) Other expenditure

Various items within this category were reprioritized to fund the additional funds required above.

C. EXPLANATION OF VARIANCES: FINAL BUDGET AND ACTUAL AMOUNTS

Revenue

The total revenue for the year, excluding capital transfers and contributions, is 5.0% less than the budgeted revenue. The actual revenue amounts to R37.2 billion whilst the budgeted revenue amounts to R39.0 billion, with the negative variance of R1.8 billion.

The contributing factors to the negative deviation are as follows:

i) Transfers recognised – operational

The deviation is mainly caused by poor expenditure on HSDG as a result of the funds being roll-over from last FY and interruption by lockdown as Contractors could not continue with housing construction.

ii) Other own revenue

The variance is as a result of under recovery on various revenue sources such as:

Interest on trade debtors – deviation is as a result of adjustments emanating from the Valuation Appeal Board Outcome in relation to other industries property rates. The City has also suspended interest on outstanding debtors with effect from 01 April 2020 with the intention to provide relief to residents following negative impact of COVID-19.

Licenses and permits – deviation is as result of closure of offices during the fourth quarter in response to the COVID-19 pandemic.

Expenditure

The total expenditure for the year is R558 million less than the budgeted expenditure. The actual expenditure amounts to R39.0 billion whilst the budgeted expenditure was R39.6 billion.

The following major expenditure items are analyzed:

i) Debt impairment

Final calculation for debt impairment was based on the actual consumer debt and determined as per provision for Bad debt policy

ii) Finance cost

Finance cost is budgeted according to all the existing loans of City plus the interest payable on new loans obtained during the financial year.

iii) Other expenditure

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58. Budget differences (continued)

Negative deviation is as a result of several expenditure items within the category. The main contributors are the cost containment measures implemented on general expenses.